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HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

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FEBRUARY 7 AND 19, 1985

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FEBRUARY 19, 1985

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NATIONAL SECURITY

THURSDAY, FEBRUARY 7, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici, chairman of the committee, presiding.

Present: Senators Domenici, Hatch, Andrews, Symms, Grassley, Kasten, Quayle, Gorton, Danforth, Chiles, Hollings, Johnston, Sasser, Hart, Metzenbaum, Riegle, and Exon.

Staff present: Stephen Bell, staff director; Charles Flickner, senior analyst for international security; and Paul Heilig, analyst for national defense.

For the minority: Richard N. Brandon, staff director; Douglas Olin, senior analyst for national security affairs and technology; and Doug Cook, senior analyst for defense.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. Good morning, Secretary Weinberger, and good morning, General Vessey. It is a pleasure to have you back before the Senate Budget Committee. Today, we are going to hear your views on the fiscal year 1986 defense budget.

As this is the first defense budget submitted for the President's second term, I think it is timely to make a few comments concerning our historical perspective.

REBUILDING MILITARY CAPABILITY HAS NOT COME CHEAP

First, there is no doubt that we have come a long way in terms of rebuilding our military capability. This improvement has not come cheaply. Fiscal year 1986 budget authority, if approved as requested, will be $178 billion, or 124 percent higher than the fiscal year 1980 level. Outlays will be $152 billion or 112 percent higher than the fiscal year 1980 level.

Furthermore, this budget would result in real defense spending 18 percent higher than the peak of the Vietnam war. At that time, we had an army of 1,570,000 men and women versus 781,000 in this budget.

I certainly do not mean any of this in a critical way, Secretary Weinberger. You cannot spend a nickel that the Congress has not appropriated. As Director Stockman drove home here yesterday, a substantial majority of the Congress voted for those levels of defense spending, as did I.

SDI COULD REVOLUTIONIZE DETERRENCE

A second observation is that the strategic defense initiative—or SDI—moves us to the eve of development of a new generation of technology that indeed could revolutionize the concept of deterrence as we know it today. The potential impact of SDI on both strategic weapons and conventional weapons and on associated technology development—sensor technology and artificial intelligence, for example—is enormous.

In addition to the very large potential impact that SDI may have on our defense strategy, we are also on the eve of arms negotiations with the Soviets. The President is certainly to be commended for getting us to this point and for making the elimination of all nuclear weapons his ultimate objective.

FREEZE ON DEFENSE APPROPRIATIONS CONSIDERED

As you know, many of us are considering a freeze on overall defense appropriations at the fiscal year 1985 level. I do not know whether that will come to pass, but there is a growing expectation that Congress will make significant reductions from your request.

You are requesting average annual real growth of over 6.5 percent in the next 5 years, yet the Congress for several years have been reluctant to provide more than 5-percent real growth. This year, few expect that we will provide that much.

Budget Director Stockman gave us a very forceful presentation on the defense budget on Tuesday. He essentially said that this budget contains primarily those weapons that the Congress has supported for several years. He also maintained that the appropriation levels are ones that the Congress appears to be comfortable with.

That analysis may be true for some of the very large items, the so-called "big ticket" items, but I am not so sure that it is necessarily true for the other systems.

There are increases in other accounts, especially tactical missiles. For instance, the Air Force is requesting a $1.3 billion increase in that tactical account. That is an 80-percent increase. The Navy is requesting a similar $1.3 billion increase in their weapons account. This amounts to a 29-percent increase.

We have a duty to review the justification behind such large increases, especially since we are being asked to put together a package major of deficit reduction which in many cases, requires very large cuts in domestic programs.

INFLATION SAVINGS SOURCE OF BUDGET REDUCTIONS

A second source of budget reductions is the use of inflation savings from current estimates and savings from prior year balances. In the 1985 fiscal year, these savings amounted to $9 billion. A quick check of the level of unobligated balances you report in the budget, Mr. Secretary, indicates they are continuing to grow. In last year's budget, you estimated fiscal year 1985 yearend unobligated balances of $50.5 billion for your full program.

Now, with $20 billion less in budget authority, those fiscal year 1985 yearend balances have grown to $51.5 billion. I am sure that the Congress will take a close look at this issue to ascertain which of those balances are available for other purposes, and if you care to today, you might address that issue.

As we begin our session this day, I think it appropriate to remind my colleagues of one other set of facts. If you review spending increases during the past several years, you find the following: Nondefense spending since 1981 has grown by a negative 1.3 percent. That is an annual compound growth rate, 1.3 percent. That category of domestic spending most controllable by Congress has actually declined. That is an extraordinary testament, in this midst of a recession, this Senator believes, to restraint.

Entitlements, which grew by double digits in the seventies, have grown by a 3.1 percent average compound growth the past 5 years. And, not by way of explaining any justification, but merely to put into perspective the nature of the problem, defense has grown by about 7.5 percent real growth, using the same kind of baseline, and that also is an annual compounded average.

Finally, we ought to know that net interest has grown 12.4 percent annually compounded, the largest growth factor in the budget.

In short, most of the Government has not grown dramatically. Defense has received the most significant growth during that period, and that is in spite of a recession that was the most severe since the Great Depression.

I supported this buildup. I thought it was absolutely necessary that we catch up. There is indeed a very serious threat, although from time to time, I have argued that we go a bit more slowly.

ECONOMIC STABILITY AT STAKE

Now, we are faced with a problem as serious to the rest of this decade as our decaying military posture was to the first half of the decade. I think economic stability is at stake in terms of our fiscal policy here. I believe we can, and I think we must, have a level of military spending that supports our posture at Geneva and keeps our commitment to our allies throughout the world, and protects our national interests. I believe that such a level can be smaller during the next 3 years than the level requested. I hope, Mr. Secretary, that you will help us find that level, but I also must say that it is imperative that we not assume that defense can solve the problem of the fiscal deficit that confronts this Nation by itself. It certainly cannot, and unless we are willing to do some very difficult things, clearly, we cannot ask for much from defense.

I yield now to my distinguished colleague from Florida.

Before I do that, Mr. Secretary, what do you assume your prepared testimony will take, in terms of time?

Secretary WEINBERGER. Mr. Chairman, we will not require more than about 15 or 20 minutes. We have a few charts, and I would like to use the balance of time for your questions. General Vessey does have a statement, which I think it is very important for everyone to hear too.

Chairman DOMENICI. All right. I certainly want you to have as much time as necessary. That sounds very reasonable, and we will be able to get everything in.

Senator Chiles?

OPENING STATEMENT OF SENATOR CHILES

Senator **Chiles**. Thank you, Mr. Chairman, and good morning again, Mr. Secretary. We welcome you to our committee.

My opening remarks this morning will be brief, but I do want to draw your attention to a couple of charts.

Place them, if you will, so the Secretary can see them.

GROWTH RATE CANNOT CONTINUE

The first chart shows three lines. The lower line shows the commitment President Carter made with NATO for 3-percent growth. Some of us in the Congress, including my colleague from South Carolina, Mr. Hollings, and the chairman of this committee, and others here, felt that we needed a stronger defense, and we moved that line up to 5 percent. That was in the last years of the Carter administration. But over the last 5 years, defense spending has grown at $230 billion more than the 3-percent commitment. So I think what the chart shows—we do not have to debate anymore about how much more to spend—we have doubled spending in the last 5 years. We know we cannot afford to keep growing at that same rate.

DEFENSE SPENDING DOUBLED IN LAST 5 YEARS

The second chart shows the total military spending, broken into two categories, operations and investment, in 1985 constant dollars. It confirms we do not have to debate anymore about how much more to spend on defense; we have doubled it in the last 5 years. If you look closely at that chart, you will see that our investment spending on defense is already $30 billion higher than 1966, the peak year of the Vietnam involvement, and it is the highest level of spending since Korea. What I think that chart shows is the increases in investment have not been at the expense of operations; they have both climbed rapidly. Investment climbs even faster. If we hold to this rapid investment trend, we will have to spend more on operations, because it takes that to man the weapons.

If we look at the operations levels, you will see it is higher than any peacetime period since the end of World War II. So we are spending on military as though we are in a war. It would seem that the debate now should be to shift the focus to how we can best channel these funds. If Congress were asked to increase the level of funding at the levels proposed in this budget, we would be building even further.

HOW MUCH MORE INVESTMENT DO WE NEED

So you have to ask how much more investment do we need, when it is costing us $60 billion a year to modernize that inventory.

That is the principal point that I want to make. I will have some further questions at the hearing.

I know you like Churchill, and I believe Churchill said at one time, "Personally, I like short words and simple fractions."

Chairman **Domenici**. All right, Mr. Secretary. If you will move the mike over——

Secretary **Weinberger**. They have me wired up here, Mr. Chairman. I think that is to keep me here, so I will not be able to move very far forward. General Vessey has the mike.

Chairman **Domenici**. Mr. Secretary, I just want to remind you that you probably are not as tempted as we are to talk when somebody else is talking, but frequently, that happens to us up here when we are wired. We appear to be saying things out there, to the country, that we intend to be saying privately. The mikes pick that up. So what I am saying is they do not turn that off when somebody else is speaking.

Secretary **Weinberger**. I once forgot that, and I have tried to remember it ever since.

Chairman **Domenici**. I do, too.

I want to welcome a new member of the committee. We have, over there in the most junior position, the newest member of the majority to join our committee. We welcome you, Senator Danforth.

Some of us wonder why you chose this committee; you might not know yet yourself, so do not pass judgment. Wait a couple of months. We are delighted to have you, and thank you for choosing our committee.

Senator **Danforth**. Thank you, Mr. Chairman. I am happy to be here.

Senator **Metzenbaum**. Mr. Chairman, I am glad to have Senator Danforth here, but I am curious to know how we can welcome a new member of this committee, since I did not think the committee structure had been resolved as yet—how many, who, what, where. But I am delighted to have Jack Danforth here, when and if it becomes a reality.

Chairman **Domenici**. I think what has happened, Senator, to the extent that disputes or unresolved issues remain, they are not with reference to this committee. The committee on committees has gone down below our level and there are some other discussions with reference to two or three other committees, but not this one. That is what I understand.

Senator **Metzenbaum**. Well, I certainly will not dispute the point. I am delighted to have him here. But the Democrats do not know what committees they are on, and I am pleased to know the Republicans got this matter resolved, when I sat here until 7 o'clock last night, trying to figure out how we go about it.

Chairman **Domenici**. Thank you very much, Senator Metzenbaum.

Mr. Secretary?

STATEMENT OF HON. CASPAR W. WEINBERGER, SECRETARY OF DEFENSE

Secretary **Weinberger**. Mr. Chairman and members of the committee, we appreciate very much the opportunity to present the fiscal year 1986 defense budget to you. I would like to emphasize a point I will make a little later, and that is it is only the fiscal year 1986 budget that is before you. The President has made no decision on any other budgets. There are some notional figures and projections published in the budget document, as they have to be, but when you speak of the amounts that are going to be spent in outyears, I would suggest respectfully that all we are talking about at the moment is the fiscal year 1986 budget. And while there are certain projections from that, there are no decisions on it, one way or the other. The President was very specific in deciding that he was not going to decide what would be the proper amounts for fiscal years 1987, 1988, and the outyears. So, what is before you is the fiscal year 1986 budget. I will be glad to talk a little bit about that first, and then try to deal with a couple of the points that you and Senator Chiles made in your opening statements.

CHART 1

FISCAL YEAR 1986 DEPARTMENT OF DEFENSE BUDGET—FINANCIAL SUMMARY BUDGET AUTHORITY AND OUTLAYS

[Current dollars in billions]

	Fiscal year—		
	1984	1985	1986
Budget authority	258.2	284.7	313.7
Percent real growth	4.4	5.9	5.9
Outlays	220.8	246.3	277.5

CHART 2

FISCAL YEAR 1986 DOD BUDGET TOPLINE CHRONOLOGY

[Current dollars in billions]

	Fiscal year 1986 DOD budget	
	Authority	Outlays
Fiscal year 1985 budget: January 1984	349.6	301.8
Fiscal year 1985 Rose Garden agreement	−24.8	−15.6
Fiscal year 1986 budget: January 1985	−11.1	−8.7
Total adjustments since January 1984	−35.9	−24.3
Current approved topline	313.7	277.5

Mr. Chairman and members of the committee, chart 1 exhibits the standard figures for the budget authority and resulting estimated outlays. Fiscal year 1984 is actual; fiscal year 1985 is still estimated; fiscal year 1986 is the budget before you, with budget authority at $313 billion and budget outlays estimated at $277.5 billion. The real growth figure is 5.9 percent, the same real growth that occurred in fiscal year 1985 over fiscal year 1984.

DOD HAS CONTRIBUTED TO DEFICIT REDUCTIONS

The authority and outlays for the fiscal year 1986 budget and the way it was constructed are before you here. We see the way in which we started out the projections a year ago January, at $349 billion and as a result of an attempt to make compromises early in the session, we reduced that figure by $24.8 billion, and then made a further reduction as we worked out to the final preparation and presentation of the budget, at the President's direction, for another

$11.1 billion. This makes a total of nearly $36 billion that we took out of the budget under that originally projected just a year ago. That brings us out to the $313 billion figure that is before you.

I think the important thing here, particularly for this committee to bear in mind, is that that 313 figure before you is about $2 billion below the amount of the budget resolution which emerged from this committee and passed the Congress just 4 months ago. So that this is not, by any measure, an excessive budget. It is below the figure which you told us 4 months ago was the proper figure for fiscal year 1986 for the Defense Department.

CHART 3

DOD CONTRIBUTION TO DEFICIT REDUCTION EFFORTS

[Dollars in billions]

	Fiscal year—	
	1985	1986
Total Federal deficit:		
January 1984 estimate	180.4	177.1
January 1985 estimate	222.2	180.0
Increase in deficit	+41.8	+2.9
Resulting from:		
Lower receipts	+8.2	+21.2
Outlay change	+33.6	−18.4
DOD outlays:		
January 1984 estimate	264.4	301.8
Actual	246.3	277.5
Decrease in DOD outlays	−18.1	−24.3

There has also been a story around, or a myth, as I call it, to the effect that we have not contributed to deficit reduction. We want to be sure that the committee has the facts before it.

The original estimate of the deficit for this current fiscal year, fiscal year 1985, came in a year ago at $180 billion. The new estimate of the deficit for this current fiscal year, contained in the budget document which came up to you earlier this week, shows that that has risen by $41 billion. The current estimate of the fiscal year 1985 deficit is $222.2 billion.

That resulted from getting tax receipts in at a lower amount than estimated, at $8 billion. That is why that has a plus on it, because that adds to the deficit. It also resulted from the fact that outlays in that period went up, for the Government as a whole, by $33 billion.

The Defense Department outlays for that same period, for fiscal year 1985, we are now estimating outlays will be $18 billion less than the estimate of a year ago.

So, whereas the net of the whole Government was up by $33 billion for outlays, the Defense Department was down by $18 billion. That means that if it had not been for the contribution that Defense made of $18 billion reduction in outlays, we would have had a much higher deficit; we would have had more than $51 billion in increased outlays during that 1-year period.

BETTER MANAGEMENT SAVES BILLIONS IN OUTLAYS

Half of our $18 billion, approximately, resulted from the fact that we have a lower inflation rate than was estimated, and about half of it resulted from what we like to call better management—getting better estimates on particular items than had previously been thought possible, through savings as a result of audits and other things. We will show that in the course of this presentation. So we did contribute in fiscal year 1985, and will contribute, that amount of reduction to the deficit.

As far as fiscal year 1986 is concerned, the deficit estimate between last year and the document that came up earlier this week, has gone up now about $3 billion, or $2.9 billion. Part of that resulted from lower tax receipts, $21 billion in lower tax receipts added to the deficit that amount, but we managed to make reductions in outlays, Governmentwide, of $18 billion. Again, the Defense Department decrease in outlays is actually $24 billion. So, if it had not been for the Defense Department reduction in outlays as a result of the $36 billion reduction in authority that we showed you a moment ago, you would have had increases in outlays of $6 billion rather than that net of minus $18 billion that we show there.

So again, you have had decreases in outlays, partly based on lowered inflation estimates, and that is a very good thing. We are delighted when those come in low. If the inflation estimates are lower than we estimate, we simply do not take the money out of the Treasury. If they are higher, we have to ask for a supplemental, or get a lot less defense. So that, I think, is a good thing.

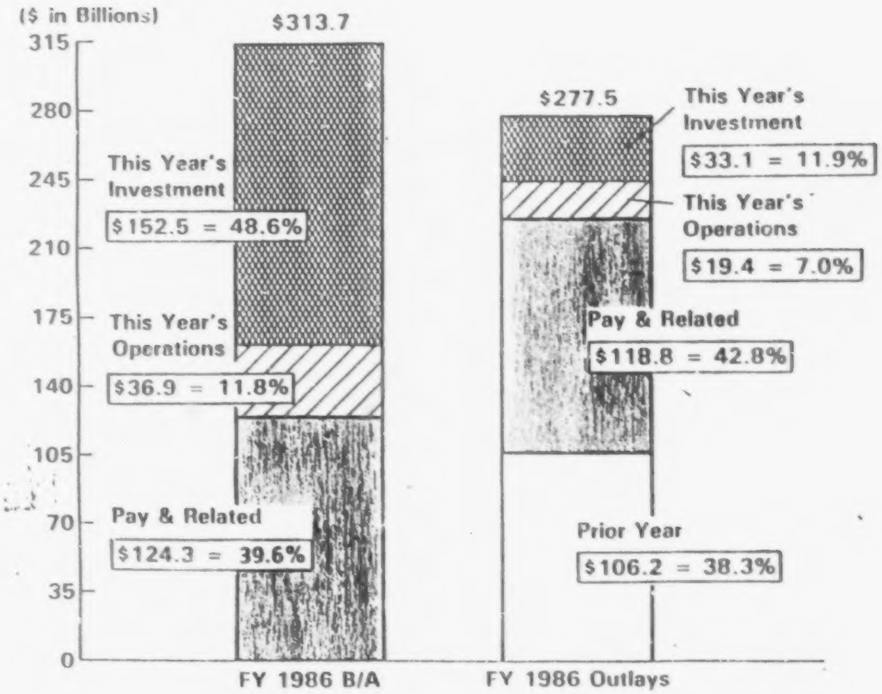
The other half of the $24 billion reduction comes from better management, audits that produce savings, and programs where we come in below estimate for a larger number of weapon systems. That, again, I think is important to have in mind.

THIS YEAR'S OPERATIONS ONLY 7 PERCENT OF BUDGET

Chart 4 is important, particularly for this committee and for all of us, because this shows both the budget authority and the outlays for fiscal year 1986. If we look at the right bar over here, the outlays for fiscal year 1986, you will see a green portion at the bottom that is 38 percent of the total outlays, and that is about $106 billion. All of that is due to prior-year authorizations, prior-year obligations that have to be paid this year. That is what we would call, the noncontrollable part of the budget, unless you want to incur very sharp termination costs and stop a lot of things halfway through, or sometimes, only after a year or two start.

CHART 4

FY 1986 DoD B/A & Outlays



The next big chunk of our outlays is pay, 42.8 percent, about 43 percent, for this year. It normally runs close to 50 percent. That is personnel and manpower costs of all kinds.

This year's operations are actually only 7 percent of the budget, that is investment in the things that we will need, or need to continue with the development of things that are already started, is about 12 percent, or $33 billion. So that you see the problems involved in the structure of the Defense Department budget and what it is that actually makes it up.

On the other side, the other bar is the formation of the budget authority. The pay there goes down a little bit because we do not have a pay raise for fiscal year 1986, and that percent drops that down to about 40 percent, as opposed to the usual 50 percent.

New budget authority, for this year's operations is 11.8 percent and this year's investment is about 48 percent.

DEFENSE OUTLAYS 6.6 PERCENT OF GNP

Here are the defense outlays as a share of the gross national product. You will see that in fiscal year 1986, we are at 6.6 percent, with a very, very small increase planned for the rest of the decade. Compared to the defense share of the GNP in prior years, the current amount is considerably less than at most of the other periods shown, except for the decade of the seventies, when we had a major decline of about 20 percent in defense spending.

Chart 5

Defense Outlays As a Share of GNP

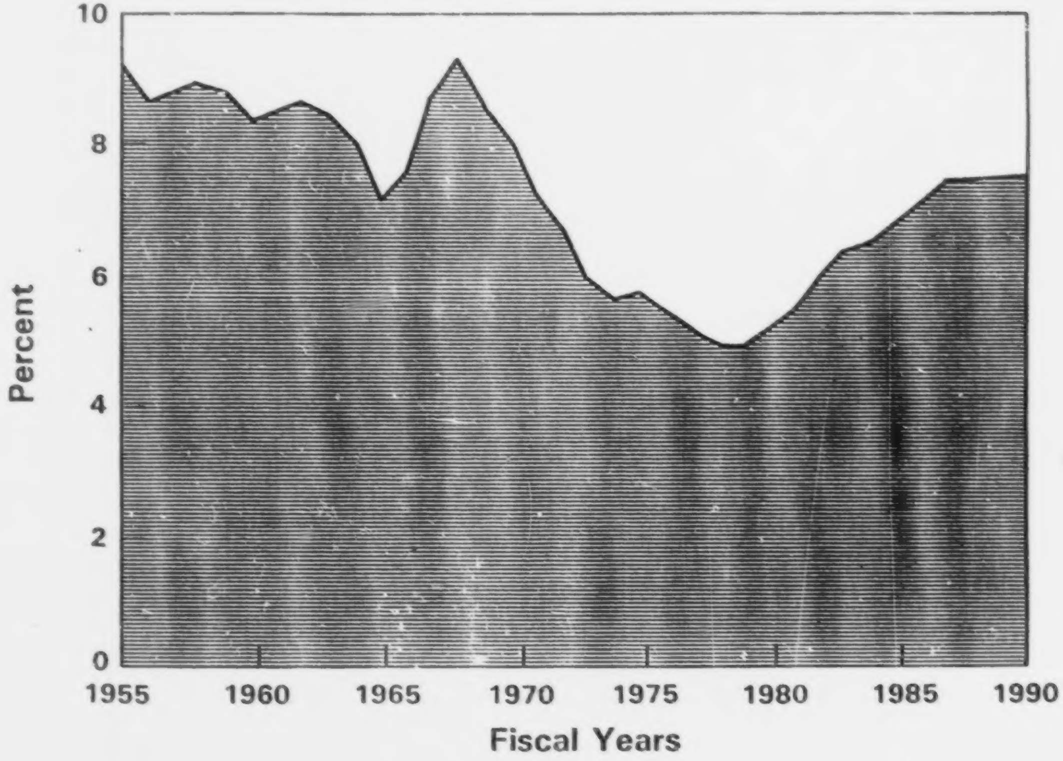


CHART 6

Total Federal Outlays

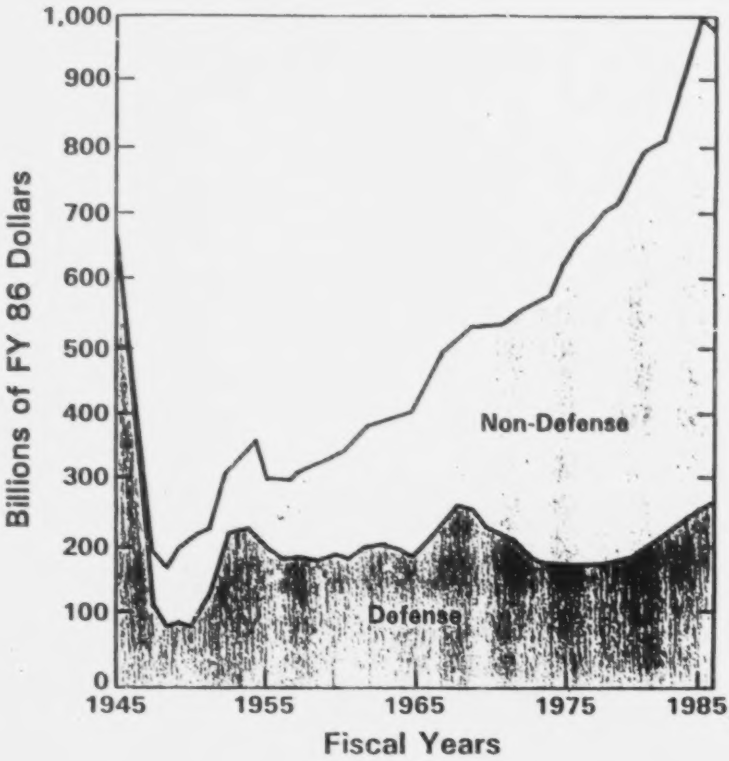
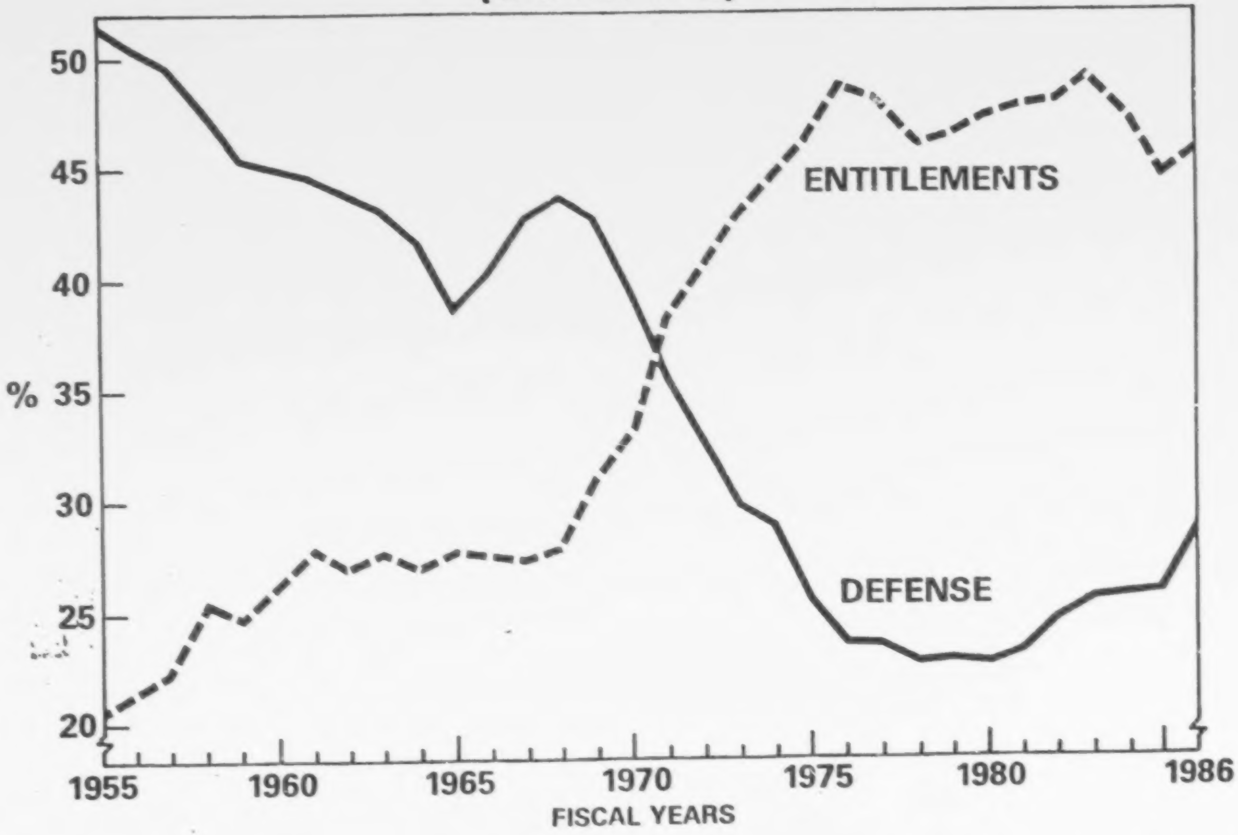


Chart 7

SHARES OF THE BUDGET
(OUTLAYS)



Then again, chart 7 demonstrates defense spending as a percentage of total Federal outlays. You will see that we have at this point, about 26 or 27 percent of the total budget. Nondefense, which has been climbing steadily since the fifties, has an enormously larger percentage of the total budget than defense.

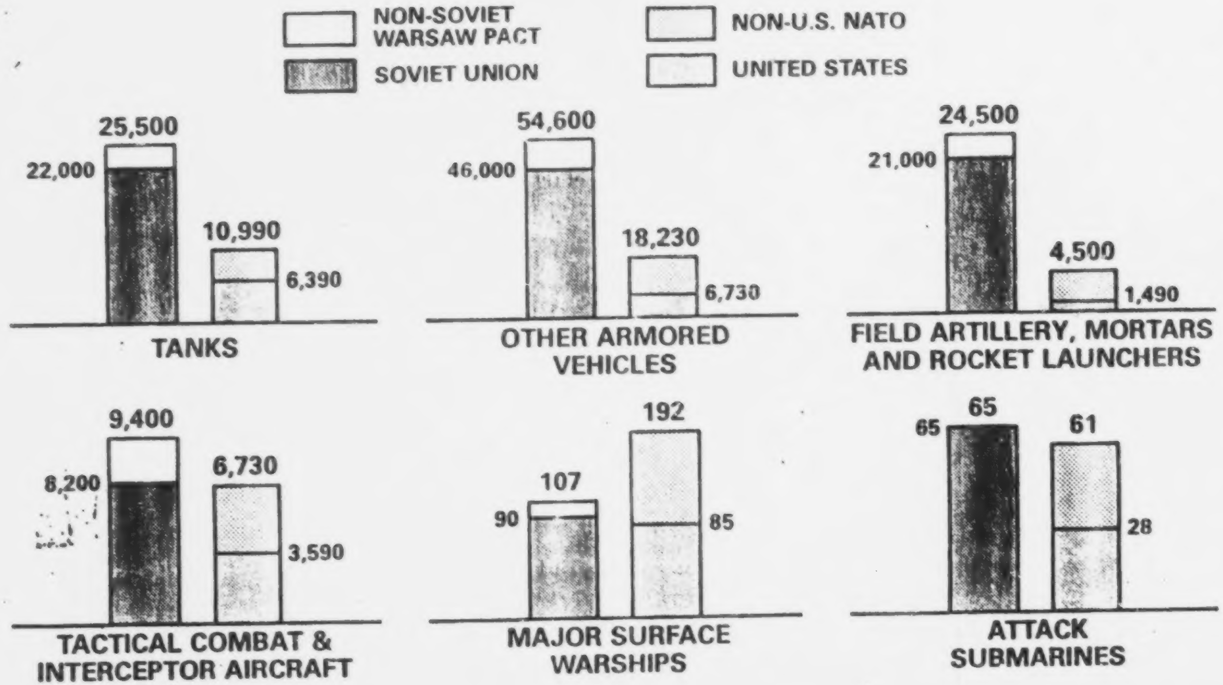
Entitlement programs were a very small percent, about 21 percent of the budget, back in the fifties. They are now about 46 to 47 percent of the budget. Defense was over 50 percent of the budget in the 1950's, and is now down to around 26 or 27 percent this year.

Now, the reason for all of this, I believe is what do we get for it? What is the output, and what is the nature of the threat that we face; why is it that we must have defense spending at all?

Chart 8 compares the output and the production, over a 10-year period, 1975 to 1984, of both the Warsaw Pact and the Soviet Union measured against NATO and the United States. And you will see the imbalances that occur because of the enormously larger Soviet production over those years. In total production over that 10-year period, we produced 6,390, and NATO as a whole produced about 11,000 against 25,500 for the Soviet and Warsaw Pact countries.

CHART 8

PRODUCTION OF SELECTED WEAPONS FOR NATO and WARSAW PACT FORCES (1975-1984)



A similar situation exists with armored vehicles; the same with field artillery and mortars; the same with tactical, combat, and interceptor aircraft—there, the percentage as a proportion is not quite as great. For major surface warships, we are ahead; that is the only one of those categories in which we are ahead. For attack submarines, again, the Soviet and Warsaw Pact countries are well ahead not only of the United States, but of the United States plus NATO.

We have, however, made major progress in a number of our categories, as a result of the very generous appropriations by the Congress in the last few years. You will see here that war reserve munitions stocks have increased in the amounts shown for all the services—smaller for the Army, because they start from a higher base and with a much greater variety of munitions, but with a substantial and much-needed increase in these stocks.[1]

MANPOWER SITUATION HAS IMPROVED

One of our best stories, and one of the issues of which we are most proud and pleased, is the way in which the manpower situation has improved. All of the services now are reaching their recruiting goals and the number of young men and women in the Services Delayed Enlisted Program [DEP] now constitutes about 40 percent our own accession on requirements for the next 12 months. We are now recruiting up to 93 percent high school graduates, so the pepole coming in are better trained and are better educated, and that compares with 60 percent 4 years ago. The reenlistments are a critically important factor because of the way in which these people who are already trained help in the training of the new people coming in. Reenlistments are up very substantially since 1980.

CHART 9

Increases in war reserve munitions inventories [1]

Between fiscal year 1983 and fiscal year 1986, war reserve munitions stocks will increase by:

	Percent
Army	14
Navy	58
Air Force	62
Marine Corps	24

[1] Ammunition, ordnance, missiles.

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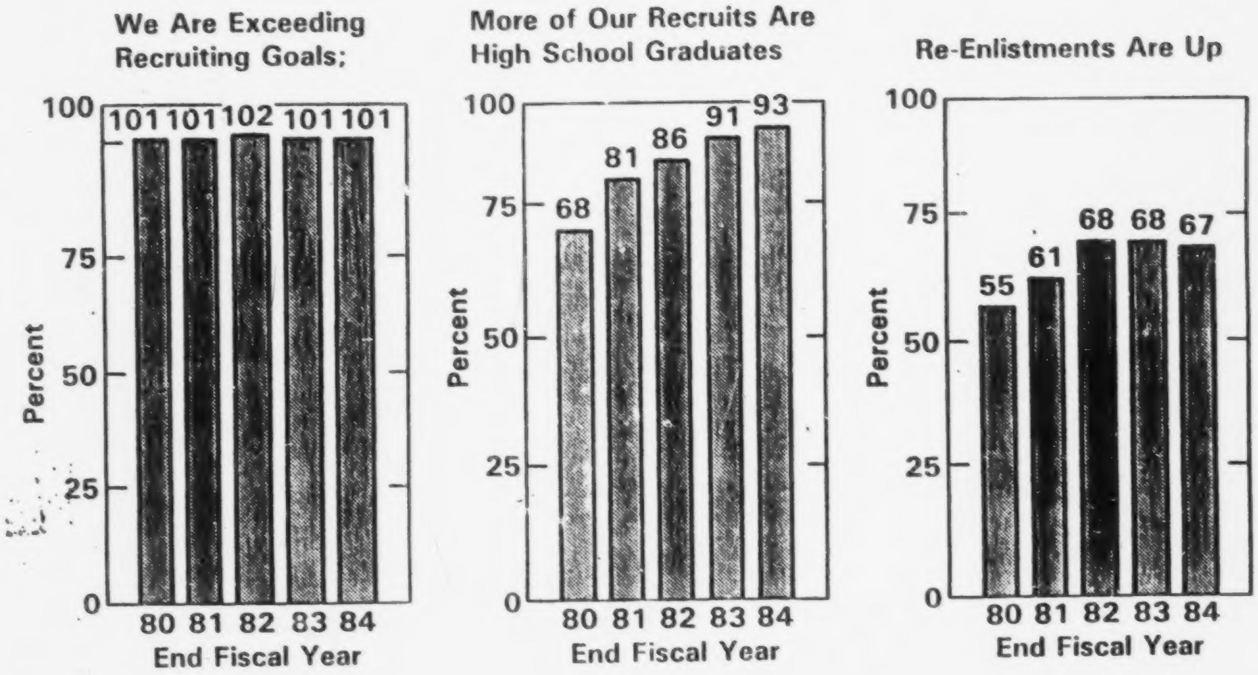
[1] Classified comment deleted at this point.

Chart 10

Improvements in Military Manpower



We Are Exceeding Recruiting Goals;

More of Our Recruits Are High School Graduates

Re-Enlistments Are Up

CHART 11

FISCAL YEAR 1986 PRESIDENT'S BUDGET—MANPOWER

[In thousands]

	Fiscal year—		Change fiscal year 1982–86
	1985	1986	
Military active duty:			
Army	781	781	+1
Navy	571	586	+33
Marine Corps	198	199	+7
Air Force	602	612	+29
Total military [1]	2,152	2,178	+69
Civilian end strength:			
Army	401	406	+27
Navy	339	341	+21
Air Force	257	267	+18
Defense agencies	91	93	+11
Total civilian [2]	1,088	1,107	+77
Total military and civilian	3,240	3,285	+146

[1] Includes military assigned to Defense agencies and cadets.

[2] Civilian end strength includes classified, wageboard, foreign indirect, civilian technicians, and permanent part-time.

CHART 12

FISCAL YEAR 1986 DOD BUDGET—SUMMARY OF SELECTED RESERVE STRENGTHS

[End-year-in-thousands]

	Fiscal year—		Change fiscal year 1982–86
	1985	1986	
Reserve personnel, Army	286	301	+44
Reserve personnel, Navy	129	142	+48
Reserve personnel, Marine Corps	42	43	+3
Reserve personnel, Air Force	75	77	+13
National Guard personnel, Army	438	450	+42
National Guard personnel, Air Force	108	111	+10
Total	1,077	1,124	+160

Note: Totals may not add due to rounding.

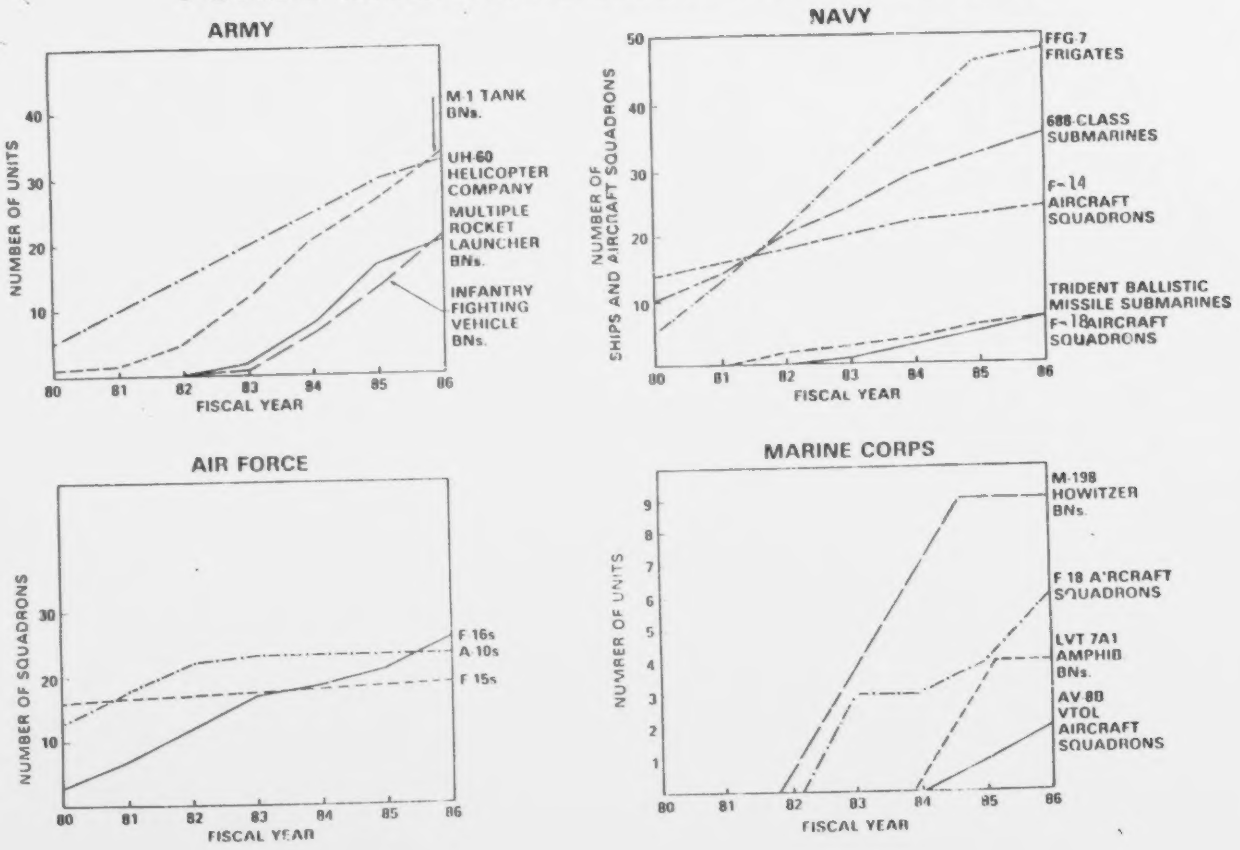
Manpower has gone up. We have added to the active duty as well as the civilian end strength, and that has been essential as we have increased the responsibilities and the duties of the military.

One of the happiest parts, also, of the personnel story is the way in which we have increased the size of the Reserves and the National Guard. Our Selected Reserves end strength is now at the highest level ever, breaking the record level set 25 years ago. That is a very important part of it, because we rely heavily on the Reserve and National Guard to round out divisions and many of the brigades and other units.

Shown here, is another output chart. Congressman Aspin, the chairman of the House Armed Services Committee, asked us, "What are we getting?"

Chart 13

FORCE MODERNIZATION IMPROVEMENT



GETTING SUBSTANTIAL TANK INCREASES

These are some of the things we are getting. We are getting very substantial increases in M1-equipped tank battalions, the OH-60 helicopter companies, multiple rocket launcher battalions, infantry fighting vehicles—all of these trends are sharply upward from 1981, as indeed they should be based upon the generous appropriations that Congress has made.

The case is the same with the Navy, as we move toward the 600-ship Navy and as we fill out the aircraft squadrons. The same is true for the Air Force, and also with the Marine Corps, particularly the new howitzer battalions and F-18 aircraft squadrons for the Marines.

So, in all of these measures of output, or all of these measures of strength and readiness, the trends are up, as is the case with the munitions stockpiles, which we show on this chart, which indicates the material we had in the previous chart.

Here is what we have accomplished and scheduled, both authorizations and appropriations, as we modernize the triad, the strategic offensive weapons which maintain deterrence. We have, as you see, more cruise missiles deployed now on B-52's; the B-1B bombers are beginning to come off the production line. This budget funds the conclusion of that program with the last 48 that will give us a total force of 100. Also, we are making very good progress as a result of prior authorizations, on the new advance technology bomber.

CHART 14

MUNITIONS STOCKPILES

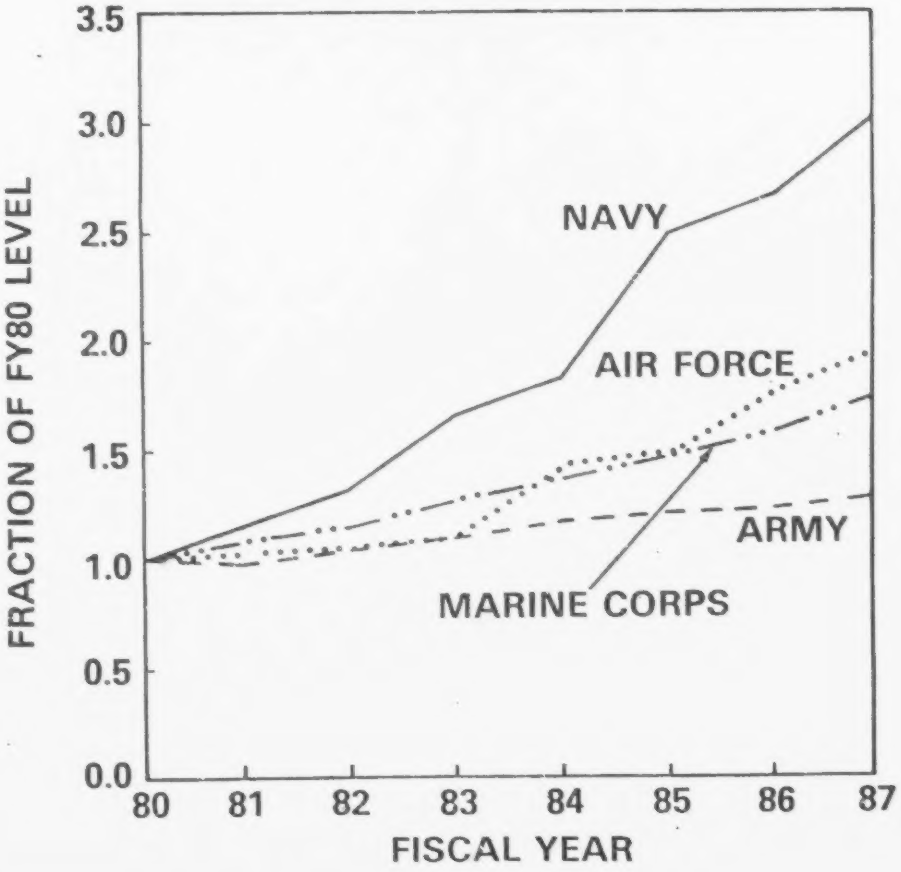


CHART 15

Strategic Triad modernization

- Bomber force:
    - Cruise missiles on B-52's:
        - Deployed on 90 B-52G's.
        - Fiscal year 1986 begins modification of B-52H's.
    - Fiscal year 1986 funds production of last 48 B-1B bombers.
    - Development of advance technology bomber for deployment in early 1990's.
- Ballistic missile submarines:
    - Trident submarines have met or exceeded all design criteria:
        - 12 Trident submarines authorized through fiscal year 1985.
        - 13th Trident submarine funded in fiscal year 1986.
    - Trident II missile development continues with initial procurement planned for fiscal year 1987.
- Intercontinental ballistic missiles:
    - MX/Peacekeeper missile:
        - Performing at or above expectations in all areas: Approval for 21 missiles through fiscal year 1984; 21 missiles in fiscal year 1985 contingent upon congressional approval; 48 missiles funded in fiscal year 1986 request.
    - R&D on small missile.

After a difficult start in 1981, when the first Trident submarine was about 22 months late, we now have them coming off the lines at one-a-year. The 13th will be funded in fiscal year 1986; 12 Trident submarines have been authorized through 1985. The new missile for that submarine, the D-5, continues under development and is on schedule, with initial procurement for the first of them in fiscal year 1987, with initial operational capability in fiscal year 1989.

For the Peacekeeper missiles program, the MX, we are procuring 21 missiles as a result of the fiscal year 1984 appropriation; we have 21 more authorized in fiscal year 1985, with fund utilization contingent upon Congressional approval and an additional 48 missiles are in our 1986 request.

We are also proceeding well with the research and development on the small missile, as the Scowcroft Commission recommended and as the Congress approved last year.

600-SHIP NAVY MOVING AHEAD

Chart 16 displays changes in the conventional force structure, and as you will see, we are moving ahead on the 600-ship Navy. We had 479 ships when we came in; we now have 542, and this is still with a number of ships that have been retired during that period. We have two new light divisions of the Army that will not add anything to the end-strength, but will give us a greatly-needed mobile and light capability.

CHART 16

Changes in conventional force structure

- Continued expansion:
    - 600 ship Navy by fiscal year 1989:
        - 479 ships end of fiscal year 1980.
        - 542 ships end of fiscal year 1985.
    - Two new light divisions being formed by the Army:
        - 10,000 man light infantry divisions
        - Based in Alaska and New York
        - No increase in end strength

Land and tactical forces—increases in end strength since fiscal year 1981:
  Active force strength up approximately 102,400
  Reserve force end strength up about 125,000
Investment in airlift, sealift, and prepositioned materiel capacity:
  Provides ability to respond promptly to crisis
  From fiscal year 1981 to the end of the decade we will have increased airlift capacity by 80 percent; sealift capacity by 110 percent; and prepositioned materiel by 150 percent.

Senator SASSER. Excuse me, Mr. Chairman. Could I ask the Secretary if he could move a little closer to the mike? I am having great difficulty hearing, and I am very interested in what you are saying.

Secretary WEINBERGER. Sorry, Senator. Is that any better?

Senator SASSER. Much better. Thank you.

Secretary WEINBERGER. Chart 16 displays increases in the conventional force structure. Active force strength up since fiscal year 1981, about 102,000; reserve up by 215,000. This is an important point, because not only is increasing Reserves a lot less costly, but it gives us the additional training and manpower that enables us to fill out active divisions with reserve units. They have both the training and the new material that they can use.

The same with the airlift/sealift capacity, fulfilling our strategic requirement, which we need in view of the Soviets' capability to move simultaneously in various areas of the world. Investments here will add greatly to our air and sealift. By the end of the decade we will have increased our airlift capacity by 80 percent, sealift by 110 percent, and prepositioned material by 150 percent which, again, is another way of enabling us to get the forces into other areas as quickly as we can. All of these are substantially increased as a result of the spending that the Congress has authorized.

COST GROWTH DOWN TO 1 PERCENT

We are very proud of this particular chart and of the results that are stated there. The cost growth on the major weapons systems when we came in during 1980 was 14 percent. In 1983 as a result of the efforts we have made, that cost growth was down to one percent in 1983. We will save $5 billion through 1990 for 16 programs by moving to more economic rates of production. These are advantages we lose, Mr. Chairman, in numbers when we slow down or when we stretch out programs. These are the kinds of savings we obtain when we move ahead at the most economic production rates.

CHART 17

Acquisition improvements

Cost growth for major weapon systems:
  End of calendar year 1980, 14 percent.
  End of calendar year 1983, 1 percent.
Economic production rates:
  The fiscal year 1986 budget includes 16 weapon systems at an added investment cost of $1.3 billion in fiscal year 1986, and $2.6 billion through fiscal year 1990.
  Savings achieved from this investment will amount to $1.2 billion in fiscal year 1986 with cumulative savings of $5.0 billion through fiscal year 1990.

Multiyear procurements:

From fiscal year 1982-fiscal year 1985, Congress has approved 32 multiyear contracts, for a projected savings of $4.5 billion.

Fiscal year 1986 budget requests an additional 6 multiyear programs with anticipated savings of $1.3 billion.

Increased use of fixed price contracts:

In fiscal year 1981, 75 percent of all procurement dollars were under fixed price contracts.

Fiscal year 1984, 82 percent of all procurement dollars were under fixed price contracts.

Multiyear procurements, the Congress approved, since 1982, 32 multiyear contracts. We project savings from those of $4.5 billion. We are asking six additional approvals this year, and we anticipate the savings from them will be an additional $1.3 billion. We are using more fixed-price contracts now, contracts that give us the ability to hold procurement dollars at fixed levels, these are some of the things that have led us to these outlay savings we are talking about.

We are engaged in one other thing that is not on the chart, and that is, a very close administration, management, observation, and scrutiny of all of the major contractors. I meet every 2 weeks to review the major contracts, such as the B-1. There are basically only about three questions asked: Are we on time? Are we underbudget? And if not, why not?

This enables us to find out very early in the process, and on a continuing basis, if there are any problems developing. For example, there was a small one with the B-1, about a shortage of technically trained experts, skilled manpower in one of the subcontractors. By knowing that was there, and because it had the potential for blocking a great many of the other steps necessary, we were able to ensure that that particular problem was taken care of. That is one of the reasons the B-1 is so far ahead of schedule and fully within the budget figure.

Chart 18

Internal DOD Audits

You heard about the:	But did you know that:
$400 claw hammer	DOD identified the overcharge, and obtained a refund from the contractor.
$110 diode	DOD identified the overcharge, and obtained a refund from the contractor.
$9,000 wrench	DOD identified the overcharge and refused to pay.
$1,100 plastic cap	DOD identified the overcharge; obtained a refund; and gave a $1,100 award to the Air Force Sergeant who challenged the price.

REFUNDS FROM CONTRACTORS BEING OBTAINED

Now, you have heard a lot about these charges, outrageous prices that were in the newspapers and are the subject of so many press conferences in which people hold up various items and have outraged looks on their faces. There is no one more outraged than we are at these prices. What you have not heard, I believe, is that in those cases that have had the most publicity, including right down to the one a few days ago, we identified the overcharge ourselves.

We were the ones who found it by the largest audits in the history of the Department. We obtained refunds from the contractors, Mr. Chairman, despite contracts that were so bad that we were not entitled to receive the refunds. But we did get them, because we reasoned and discussed it with the contractors, and discussed with them the desirability of their being able to continue contracting with the Department. We obtained these refunds. We obtained a refund just 2 days ago on the latest item that all the noise and excitement is about. With the wrenches, we did the same. With the plastic cap, we not only identified the overcharge and got the refund; we gave an award to the Air Force sergeant who had challenged the price.

That is what we are trying to do. We are trying to discipline people who have missed these things, and reward the people who find them. There will be a few more, I have no doubt, as was the one a few days ago—that originated in 1983. If people want an excuse to vote against the defense budget, they can always find one small item of $600 or $700. We do not regard it as trivial. We regard it as a matter of the gravest concern. But the fact that we take the steps to do something about it, the fact that we are successful in obtaining refunds, the fact that we do not have the kinds of contracts that lead to overcharges anymore, none of this gets noted.

CONVICTIONS OBTAINED

Here on chart 19 are some of the additional statistics on the efforts that we have made to try to deal with any waste, or fraud, or abuses that we can find. With 18,000 audit reports issued, savings involved amount to about $2.7 billion. Over 5,500 cases referred for prosecution or administrative action; nearly 550 convictions obtained; 63,000 follow-up audit recommendations, with savings of almost $2 billion.

CHART 19

DOD efforts to curb waste, fraud and abuse in fiscal year 1984

Audits of internal management of DOD operations and programs:	
Reports issued	18,532
Potential savings (billions)	$2.7
Investigative cases:	
Cases closed	15,837
Cases referred for prosecution or administrative action	5,546
Convictions	548
Fines, penalties, restitutions and recoveries collected from referrals to:	
Justice Department	18,031
Military Department	11,151
DCAA audits: Reports issued	61,081
Army Corps of Engineers contract audit:	
Reports issued	416
Net savings from reports closed (millions)	$20.1
DOD inspection organizations: Reports	10,102
Follow-up actions completed:	
Audit recommendations	63,351
Estimated savings (billions)	$1.9
Defense hotline: Calls and letters received	7,820

One thing does not appear on the chart. We have increased by about 500 percent the number of contractors who have been suspended or debarred from doing business with the Government because of these things that we have found.

We have set up a hotline, which has now produced over 7,800 calls. It is anonymous; people can give their names or not, as they wish. About one-third, a little less than one-third of those, prove to be good leads that lead us to some of the savings that appear elsewhere on the chart. We follow them all up, and we encourage people to call. I have a very strict policy—if ever we find anything remotely resembling retaliation or anything of that kind against people giving us leads, we take very strict action to ensure that it does not happen.

So, these are some of the things we are trying to do to deal with what is obviously a very large problem.

FREEZE WOULD REQUIRE UNWANTED CUTS

Mr. Chairman, if I may, about 2 minutes more. You mentioned a freeze. There are all different kinds of freezes. But if we had what is generally referred to as a freeze on budget authority, that would be a nominal budget authority freeze—that is, it would give us no more budget authority than we had in 1985—you would not get the kind of outlay effects that everybody is looking forward to in efforts to deal with the deficit. Your outlays for that kind of a freeze would not greatly affect the actual deficit itself, but would decimate the ability of the Department to continue with the programs that are now in progress. Since you would have certain programs that you would try to safeguard and protect, such as strategic modernization, you would certainly not want to make the kind of cuts that that sort of thing would require in real growth in pay—even though we do not ask for any increase at all in 1986, after a 3-percent increase in the last quarter of fiscal year 1985. You also should safeguard, and we would urge very strongly if you are going to take that course, that you protect readiness.

So what does that leave you? Well, it means that you would have to delay by about 3 or 4 years the present schedules of the B-1, of the advance technology bomber; you would have to have a 38-percent reduction of tactical aircraft, a 50-percent reduction in Army and Air Force helicopters. You would have to terminate the heavy lift helicopter program, terminate the C-17 program, which would give us the new transport aircraft we need. You would slip the reengining of the C-5's, the existing ones that we have, by 3 years. You would pretty well stop the multiple-launch rocket system, a four-country program we do work with NATO. And you would have to slip your Trident II missiles by 2 years, leaving the new submarines not as well-equipped as they should be to deal with the Russian threat, and you would have to reduce two Trident submarines.

That is the effect of a freeze if you try to safeguard readiness, if you try to safeguard your strategic modernization program. If you do not safeguard these, you get the same kind of delays and the same, relatively small effect on your actual outlays, and you do cripple the ability of the Department to move ahead. You also have to terminate a lot of programs, and that costs money, without giving you anything at all.

SOVIET THREAT SHOULD DETERMINE SIZE OF DEFENSE BUDGET

The only other point I would make and the one I would want to close with, Mr. Chairman, is that all of these discussions about percentage increases, 2 percent, 3 percent, 5 percent, going up above 5 percent, do not really hit the heart of the matter. The heart of the matter is what do you get for your money, and why do you have to have any at all. Has the threat diminished in any way? I do not think anyone who has examined any of the intelligence materials, or anyone who has even looked at any unclassified discussions of these matters—certainly, no one who has looked at the behavior of the Soviet Union—could possibly say that there has been any diminution in the threat. Actually, there has been a substantial increase. That has to be the thing that determines the size of the defense budget.

The other thing that is constantly pointed out is the worry that the defense budget adversely affects the economy. We would certainly never for a moment suggest that you should approve a defense budget because it helps the economy, or because it is some kind of a stimulative program or a jobs bill or anything of this sort. The fact remains, however, that the defense budget does not have all that adverse an effect on the deficit. If you cut defense spending $1 dollar, you only cut your deficit about 50 cents, because you lose the tax revenues and the employment associated with it, and you have to make the expenditures associated with unemployment. Certainly, over the years in which Congress has so generously dealt with the defense requests—that is, the past 4 years—I do not think anyone could honestly say that that has had an adverse effect on the economy.

But the main thing is not that, or any of those other points. The main thing is, do we have to have a defense budget at all, and, if so, what is the right amount to include in it. We do not know with certainty what the right amount is. We do know that you cannot be very careless in your estimates, or very careless in your plans, because what we are trying to do here is not get an ability to win a war. What we are trying to do is to get the kind of capability that will deter a war anywhere in the world. And when you are up against a potential opponent who is adding enormously to its military strength, as the Soviet Union has done now for 22 years, then you have to have some kind of a capability that responds to that, and that they will perceive—because deterrence is in their minds, not in ours—that they will perceive as being sufficient to lead them to conclude that they should indeed come back to the table, as they have done, as the President said last night, to a very great extent because of our regaining our military strength.

Those are the factors that have to determine the defense budget, and that is why we are before you with the amounts that we have presented.

Mr. Chairman, I have appreciated very much this time. General Vessey has a presentation, and then we will be glad to try to take your questions.

Chairman DOMENICI. Thank you, Secretary Weinberger.

[The prepared statement of Secretary Weinberger follows:]

STATEMENT OF
THE SECRETARY OF DEFENSE
CASPAR W. WEINBERGER

BEFORE THE
SENATE BUDGET COMMITTEE

IN CONNECTION WITH
THE FISCAL YEAR 1986 BUDGET FOR
THE DEPARTMENT OF DEFENSE

FEBRAURY 7, 1985

Statement of the Secretary of Defense, Caspar W. Weinberger

Mr. Chairman, members of the committee. It is a pleasure for me to be here today to address the defense portion of the President's FY 1986 Budget. The Congress and the American public can and should take great satisfaction in the progress that this nation's military has made over the last four years in redressing the deficiencies in national defense capability that the Administration inherited in 1981.

We have significantly strengthened readiness and sustainability, improved our military personnel situation, and initiated a too-long deferred force modernization program. Today we have a stronger, prouder, and better equipped military force than we have had in over a decade. Military morale is high today, the U.S. servicemen and women are held in high esteem by the public, and America's global prestige as the leader and credible defender of freedom has been restored. This did not come easily or without the application of fiscal resources.

President Reagan and the Congress have had to commit to a long-range program to restore and strengthen U.S. national security. The success of that program hangs in the balance as we address the FY 1986 defense request. As pressures mount to reduce the defense budget in an effort to reduce the federal deficit --

FY 1986 DEPARTMENT OF DEFENSE BUDGET

FINANCIAL SUMMARY

BUDGET AUTHORITY & OUTLAYS

(CURRENT $ BILLIONS)

	FY 1984	FY 1985	FY 1986
BUDGET AUTHORITY	258.2	284.7	313.7
% Real Growth	4.4%	5.9%	5.9%
OUTLAYS	220.8	246.3	277.5

Chart 1

pressures which I fully recognize and appreciate -- it will require a continued resolve by all of us to stay the course. The FY 1986 defense budget request proposes that we not nullify the progress achieved over the last four years by sliding back into the pattern of the 1970's of inefficient and unstable programs, but that we continue to build upon this progress.

The President has shown his resolve to complete the task of rearming America during the difficult decisionmaking process leading to the budget now before you. The total federal budget reflects the Administration's intention to reduce federal expenditures, but not at the expense of our national security needs. It would have been easy for the President to have sought immediate deficit savings through reductions to defense programs, but the result would be an unavoidable weakening of our defense posture now and into the future. The President viewed that course as unacceptable.

Budget Overview

(Chart 1: DoD Financial Summary)

The Congress and the Nation should be aware that the Department of Defense has contributed to efforts to reduce the federal deficit. We recognize that the nation's security is inextricably linked to a healthy economy and

"WHAT HAS ALREADY HAPPENED TO 1986?"

DoD TOPLINE CHRONOLOGY - BUDGET AUTHORITY

(Current $ in Billions)

	1982	1983	1984	1985	1986	TOTAL 1982-1986
March Amendment 1981	221.8	254.5	288.9	326.2	**367.2**	1,458.6
INCREMENTAL ADJUSTMENTS TO PLAN						
Sept 1981 through Sept 1983	-8.0	-15.0	-30.7	-4.6	**-10.8**	-69.1
FY 1985 Budget Jan 1984	-	-	-	-16.6	**-6.8**	-23.4
FY 1985 Rose Garden/ Congressional Enactment	-	-	-	-20.5	**-24.8**	-45.3
FY 1986 Budget Jan 1985	-	-	-	+ 0.2	**-11.1**	-10.9
TOTAL ADJUSTMENTS since MARCH, 1981	-8.0	-15.0	-30.7	-41.5	**-53.5**	-148.7
Current Approved TOPLINE	213.8	239.5	258.2	284.7	**313.7**	1,309.9

Chart 2

"WHAT HAS ALREADY HAPPENED TO 1986?"

DoD TOPLINE CHRONOLOGY - OUTLAYS

(Current $ in Billions)

	1982	1983	1984	1985	1986	TOTAL 1982-1986
March Amendment 1981	184.8	221.1	249.8	297.3	336.0	1,289.0
INCREMENTAL ADJUSTMENTS TO PLAN						
Sept 1981 through Sept 1983	-1.9	-16.1	-29.0	-20.9	-21.7	-89.6
FY 1985 Budget Jan 1984	-	-	-	-12.0	-12.5	-24.5
FY 1985 Rose Garden/ Congressional Enactment	-	-	-	-5.8	-15.6	-21.4
FY 1986 Budget Jan 1985	-	-	-	-12.3	-8.7	-21.0
TOTAL ADJUSTMENTS since MARCH, 1981	-1.9	-16.1	-29.0	-51.0	-58.5	-156.5
Current Approved TOPLINE	182.9	205.0	220.8	246.3	277.5	1,132.5

Chart 3

DoD CONTRIBUTION TO DEFICIT REDUCTION EFFORTS

($ in Billions)

	FY 1985	FY 1986
TOTAL FEDERAL DEFICIT		
January 1984 Estimate	180.4	177.1
January 1985 Estimate	222.2	180.0
Increase in Deficit	+41.8	+2.9
RESULTING FROM:		
Lower Receipts	+8.2	+21.2
Outlay Change	+33.6	-18.4
DOD OUTLAYS		
January 1984 Estimate	264.4	301.8
Actual	246.3	277.5
Decrease in DoD Outlays	-18.1	-24.3

Chart 4

financial integrity. The defense budget request before you reflects a requirement of $313.7 billion in budget authority and $277.5 billion in outlays. This represents a real growth in budget authority of 5.9 percent over FY 1985.

(Chart 2: Topline Chronology - Budget Authority)

The FY 1986 request reflects a substantial decrease from the initial estimates developed by this Adminstration in 1981. Since the Administration's initial defense program was forwarded to the Congress in the March 1981 Budget Amendment, defense budget authority requirements for FY 1986 have decreased by $53.5 billion,

(Chart 3: Topline Chronology - Outlays)

while outlay projections have declined $58.5 billion.

Defense Spending

(Chart 4: DoD Contribution to Deficit Reduction Efforts)

Since I appeared before you last year in support of the FY 1985 defense budget, the projection for federal deficits for the two years FY 1985 and FY 1986 has worsened. This unfavorable trend results from estimated decreases in federal receipts for both years. Federal outlays for FY 1985 are $33.6 billion above January 1984 projections, but this is accounted for entirely in the non-defense areas of the government, since defense spending for FY 1985 is now $18.1 billion

SOVIET GLOBAL POWER PROJECTIONS

NORTH ATLANTIC OCEAN
NORTH PACIFIC OCEAN
SOUTH ATLANTIC OCEAN
Indonesia

Chart 5

below the projection made nearly a year ago. Total federal outlays for FY 1986 are down by $18.4 billion, explained entirely by a decline in defense outlays of $24.3 billion.

National Security Requirements

(Chart 5: Soviet Global Power Projections)

As I have noted, the defense budget has made a continual contribution to reductions in government spending. But the defense budget cannot be regarded as a tool of fiscal policy. The defense budget is different from other federal spending. The defense program before you today is developed in response to specific national security requirements. Our requirements are determined by the external threats we see. The defense budget is not a level-of-effort spending program, as is most of the nondefense budget, but is structured to buy a specific capability within a specific timeframe to support specific national security policy goals. We have not witnessed a reduction in the threats facing the United States, her allies, and freedom-seeking people of the world. We have not lessened our global commitments. Nothing occurring in the realm of international affairs would indicate that we could afford to abandon our military program in midstream. Military forces that are strong, ready, and modern are credible and tangible instruments of our national power. As we pursue negotiations for arms reduction, success depends upon our ability to bargain from strength. We cannot jeopardize these efforts by lessening our national commitment to military requirements.

The Threat

U.S. national security policy and the military capability to support it are developed in response to the realities of today's threat environment. One of the most certain realities is that the Soviet union has been engaged in a continuous across-the-board military buildup. Its strategic offensive forces have grown dramatically during the last decade. It has developed and deployed a global offensive capability which far exceeds anything it could require for its own defense. Soviet leaders engaged in this military buildup even during the 1970's when this nation was consciously constraining its defense spending. The development of many improved Soviet weapons and support systems has been made possible by access to Western technology, whose acquisition is a top priority set at the highest levels of the Soviet government. We cannot afford, as a nation, to ignore what the Soviets are and what they have done: the totalitarian nature of their government; the dedication of vast resources to military purposes without concern for their overall economy or the quality of life for their people; and the secrecy inherent in their closed society. Clearly, we must acknowledge the significant difference in our societies and systems of government and try to channel the long-term competition between us toward more stable and peaceful areas.

It is not just the Soviet Union that threatens world stability and U.S. interests. In 1984, the military forces of 20 countries were involved in conflicts in 11 areas of the world. Most of these areas involve interests or contain resources essential to many nations, including our own. One does not have to search far to discover instances of military incursions, or attempted incursions, into countries of the Third World. The Soviet Union and its ally, Cuba, have taken advantage of the social, political, and economic problems of the countries of Latin America to support insurgency, terrorism, and efforts at destabilization. The same is true in many regions of Africa. The Soviets have also supported nations, such as Vietnam, Libya, and Syria, that are engaged in aggression against neighboring states. The Middle East exists in constant turmoil. Lebanon continues its struggle to find acceptable solutions to its complex problems. While America and her allies enjoy the benefits of peace, we cannot ignore the implications of conflict in other areas of the globe. The world society has become too complex for that.

Resurgence of Alliances

The resurgence of a sense of unity and greater cooperation between the United States and her allies bears witness to the fact that this nation is resuming its rightful role as a world leader and that our efforts are being reciprocated by our friends. At the NATO meeting in December, our allies increased their financial commitment to the modernization and expansion of conventional defenses. Likewise, Japanese defense budgets are slowly increasing as Japan prepares to implement its policy of defending its territory, air space, and sea lanes out to 1,000 miles. Like the armed forces of the United States, the military forces of our friends are better equipped, trained, and prepared than ever. By strengthening conventional forces, the United States and her allies have sought to restore a balanced deterrent and to reduce the reliance on nuclear arms.

The Soviet Union has not been oblivious to the continuing improvement in the military posture of the Western nations as well as the renewed commitment to take the necessary steps to defend our interests worldwide. We seek peace through our commitment to strength, and we are also prepared for meaningful arms

READINESS FACTORS - PERSONNEL

Recruits with High School Diplomas
(percent)

Service	1980	1981	1982	1983	1984
Army	54	80	86	88	91
Navy	75	76	79	91	93
Marine Corps	78	80	85	92	93
Air Force	83	88	94	98	99
Total	68	81	86	91	93
First Term Reenlistments (percentage of eligible)					
Army	50.6	55.0	58.6	45.3	43.8
Navy	36.7	41.7	50.3	55.7	58.0
Marine Corps	23.2	26.6	34.0	33.3	39.5
Air Force	35.8	42.9	56.9	65.8	61.9
Total	39.1	43.0	52.9	51.6	51.2

Chart 6

negotiations. We seek to negotiate, but from strength. We must provide the Soviets with the incentive to agree to arms reductions and we have sought to do so - I think with great success - through diplomatic efforts as well as the strengthening of our military forces.

Improvements in Defense

Remarkable progress has been made in fulfilling the President's mandate to strengthen America's defenses. I would like to take a moment to highlight the progress made to date and to present the challenges that remain.

(Chart 6: Readiness Factors - Personnel)

Readiness and sustainability continue to improve. Perhaps our most dramatic and rewarding success is in the improved quality and increased commitment of our personnel. In FY 1984, over 93 percent of our new recruits had high school diplomas, the highest level in our history. The overall reenlistment rate was 68 percent in FY 1984, with first-term reenlistments up 31 percent since FY 1980. This marked increase in the education and experience level has resulted in improved leadership, discipline, and maintenance within our forces. Our military forces today are better prepared for the challenges that may confront our national security than at any time in our history. Once again American men and women are wearing their military uniform and serving with pride.

TRAINING IMPROVEMENTS

AIR FORCE
TACTICAL AIRCREWS:
19.1 FLYING HOURS/MONTH

NAVY TACTICAL AIRCREWS:
24 FLYING HOURS/MONTH
(NEARLY DOUBLE WARSAW PACT COUNTERPARTS)

NAVY SHIPS:
35 STEAMING DAYS/QUARTER

ARMY BATTALIONS ROTATING
THROUGH NATIONAL
TRAINING CENTER:
24 BATTALIONS/YEAR

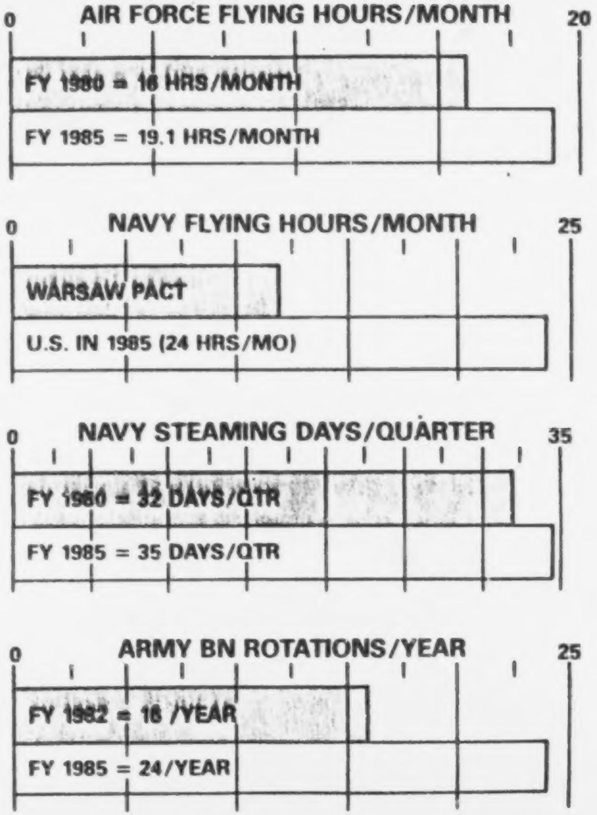


Chart 7

Readiness and Sustainability

(Chart 7: Training Improvements)

Contributing to this improved readiness is the emphasis placed upon increased and more realistic mission training opportunities for military personnel. Air Force and Navy air crews are flying more hours per month; Navy ships are steaming more days; the Army has increased its rotations through the National Training Center; and Marine unit training days and deployments continue on a upward trend. As a result, we can be confident that our people are capable of making maximum use of the increasingly complex weapons and equipment at their disposal. This could prove decisive in situations where our enemies have a numerical advantage. Navy fighter pilots, for instance, averaged 24 flying hours a month in FY 1984, more than double that of their counterparts in the Warsaw Pact.

Increased availability of spares and repair parts and supplies, along with improved maintenance, have resulted in a significant increase in the operational availability of our equipment and weapons. Today, more ships are rated ready and more aircraft are deemed mission-capable than was the case in January 1981. Gone are the days when ships could not put to sea for lack of personnel and equipment.

During the 1980's, we made major improvements in the working and living conditions of our service members. For many years, military construction was seriously underfunded due to lack of support by prior Adminstrations and the Congress. As a result, there has been a growing backlog of facility needs estimated to be in the range of $50 billion. This can be generally characterized as the amount of physical plant that is obsolete, dysfunctional, unsafe, energy-wasteful, or that falls seriously short of meeting habitability standards. As a result, severe penalties are paid through inefficiency of operations, higher operating costs, and low morale. The FY 1986 request represents a positive initiative to reverse the past negative trend. This should have a direct and positive effect on readiness.

The FY 1986 construction program supports major weapon systems initiatives such as the B-1 bomber, MX/PEACEKEEPER, TRIDENT, and the Ground Launched Cruise Missile. It also provides initial funding for the stationing of the Army's two new Light Infantry Divisions, funds construction for the guard and reserve units, and supports the NATO infrastructure program.

INCREASES IN WAR RESERVE MUNITIONS INVENTORIES*

Between FY 1983 and FY 1986, war reserve munitions stocks will increase by:

ARMY	14 %
NAVY	58%
AIR FORCE	62%
MARINE CORPS	24%

*Ammunition, ordnance, missiles

Chart 8

The FY 1986 program includes $33 million for a new appropriation account entitled, "Defense Facilities Replacement." This account will finance the construction of replacement facilities at alternative locations for functions currently sited on parcels of real estate having high commercial value. Once the functions are relocated, the vacated property will be sold. Each of these is to be a profit-making transaction. Part of these profits will be applied to the reduction of the national debt.

(Chart 8: Increases in War Munitions Inventories)

Of course, it is not enough to have our people and equipment ready, we must be able to sustain them should they be called into combat. With the support of the Congress, we are working to maintain steady growth in our war reserve stocks. The materiel procured during the past three years will, when delivered, increase our munitions stocks by 14 percent for the Army, 58 percent for the Navy, 62 percent for the Air Force, and 24 percent for the Marine Corps. Through the Industrial Preparedness Planning Program, we are continuing our efforts to improve the surge and mobilization responsiveness of our industrial base.

CHANGES IN CONVENTIONAL FORCE STRUCTURE

Continued expansion:
- 600 ship Navy by FY 1989
  - 479 ships end of FY 1980
  - 542 ships end of FY 1985
- Two new Light Divisions being formed by the Army:
  - 10,000 man light infantry divisions
  - based in Alaska and New York
  - no increase in end strength
- Land and tactical forces - increases in end strength since FY 1981
  - active force strength up approximately 102,400
  - reserve force end strength up about 215,000

Investment in Airlift, Sealift, and Prepositioned Materiel capacity:
- Provides ability to respond promptly to crisis
- From FY 1981 to the end of the decade:
  - airlift capacity up by 80 %
  - sealift capacity up by 110 %
  - prepositioned materiel up by 150%

Chart 9

Force Structure Improvements

(Chart 9: Force Structure Improvements)

The FY 1986 budget does not seek a major new expansion of our active force structure. Rather, we have sought to maintain and enhance the qualitative edge U.S. forces have traditionally possessed. Ongoing force structure improvement will continue, including the expansion of the Navy to 600 ships, creation of two new light divisions within the Army - without increasing its end strength - and modest increases in tactical aircraft. The Air Force will procure 48 F-15 aircraft in FY 1986, an increase of 6 over FY 1985, and 180 F-16 aircraft, an increase of 30 over FY 1985. The Navy plans to buy 12 EA-6B aircraft, an increase of 6 over FY 1985 procurement, and 46 AV-8B aircraft, an increase of 14 over FY 1985. We have stepped up the pace of our ground force modernization programs. The FY 1986 budget requests 840 M1 Abrams tanks, 716 Bradley Fighting Vehicles, and 117 Sgt. York (DIVAD) Guns. Investment in strategic mobility capabilities has been enhanced. Additions to airlift, sealift, and prepositioning programs through the FY 1986 budget will meet 70 percent of U.S. mobility goals, up from only 37 percent in FY 1981.

While we have limited the growth of the structure manned by the active components, increased reliance is being placed on the reserve components. The FY 1986 budget represents a 7 percent increase over the FY 1984 Selected Reserve end strength. In addition to increased manning, reserve forces are being brought up-to-date with modern equipment. In FY 1985, Army and Marine Corps Reserve units are scheduled to receive more than 10,000 new items, costing about $1.4 billion. Included in this list are 180 M1 tanks, 64 Bradley Fighting Vehicles, 41 M-198 howitzers, over 3,000 modern support vehicles, and 2 KC-130T refueling aircraft. The F-14 and F/A-18 are being introduced into the Naval Reserve tactical airwings. By the end of FY 1986, 15 modern FF-1052 and FFG-7 frigates will have been transferred to the Naval Reserve Fleet. Air Force reserve component fighter forces have received the F-16 aircraft and F-4C/Ds are being replaced with more capable F-4E aircraft. In FY 1986, they will receive the F-15. The C-141 and C-5 strategic airlift and the C-130 tactical airlift aircraft are expanding the Air Reserve Forces's inventory. Additional emphasis is being placed on more realistic and intensive training of Guard and Reserve units. Improved manning, equipping, and training of the reserve components will permit them to take on additional missions, while maintaining the combat capability of the Total Force.

STRATEGIC TRIAD MODERNIZATION

- Bomber force:
  - Cruise missiles on B-52s:
    - Deployed on 90 B-52G's
    - FY 1986 begins modification of B-52H's
  - FY 1986 funds production of last 48 B-1B bombers
  - Development of Advance Technology Bomber for deployment in early 1990's

- Ballistic Missile Submarines:
  - TRIDENT submarines have met or exceeded all design criteria:
    - 12 TRIDENT submarines authorized through FY 1985
    - 13 th TRIDENT submarine funded in FY 1986
  - TRIDENT II missile development continues with initial procurement planned for FY 1987

- Intercontinental Ballistic Missiles:
  - MX/PEACEKEEPER Missile:
    - Performing at or above expectations in all areas:
    - Approval for 21 missiles through FY 1984; 21 missiles authorized in FY 1985; 48 missiles funded in FY 1986 request.
  - R&D on small missile concept

Chart 10

Strategic Triad

(Chart 10: Strategic Triad Modernization)

The FY 1986 budget continues our efforts to modernize all three legs of the strategic triad. This modernization is crucial to our efforts for strengthening our nuclear deterrence and providing incentives for the Soviets to cooperate in negotiations for genuine arms reductions. Bomber forces will continue to be modernized with the installation of cruise missiles on B-52s, continued production of the B-1B bomber (which will come in on schedule and within or under budgeted costs), and development of the Advanced Technology Bomber. The three TRIDENT submarines already at sea continue to meet or exceed all performance criteria and dramatically enhance the sea-leg of our triad. Development of the TRIDENT II (D-5) missile is continuing and will provide our ballistic missile submarines with the ability to place hardened Soviet assets at risk.

The MX/PEACEKEEPER missile remains the essential element of the President's strategic modernization program. Progress continues on the procurement of this deterrence capability consistent with the recommendations of the Scowcroft Commission. The MX missile is performing at or above expectations in all areas and is within schedule and budgeted cost. It is important that the Congress vote for the release of FY 1985 MX funds, approve the FY 1986 funding request, and allow us to complete this critically needed program. We have no other near-term response to the Soviet strategic offensive challenge and, clearly, the success of this program has played a vital role in convincing the Soviets to return to the arms reduction negotiating table. PEACEKEEPER demonstrates to the Soviets that we are serious about redressing the imbalance in strategic forces and that they cannot expect to maintain an advantage in this area. Ongoing research and development of a small missile concept, again consistent with Scowcroft Commission recommendations, is additional evidence that we intend to guard U.S. deterrence capability.

INF Deployment

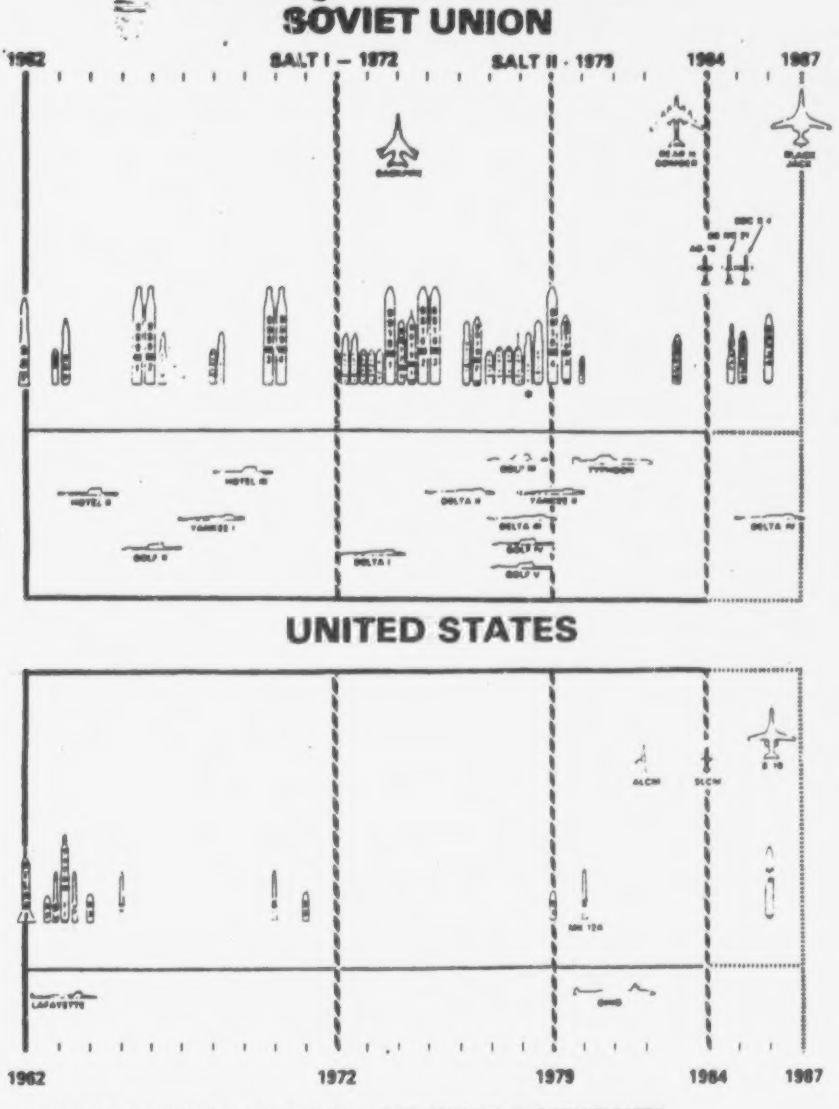
The NATO agreement, achieved just last December, to nearly double its infrastructure funding should send strong signals to the Soviets and their allies that the Alliance is most serious about strengthening its conventional forces. This agreement, in conjunction with the continued support of NATO countries in the deployment of Pershing II and cruise missiles on their soil, has reaffirmed the unity of the NATO community and its determination to take the necessary steps to maintain a credible and effective deterrent force in the face of the growing Soviet threat. The acceleration of NATO infrastructure funding for air base facilities and aircraft shelters for our reinforcement aircraft will greatly improve our ability to exploit the qualitative superiority of our tactical air forces during a crisis.

SDI

Our efforts to reduce the reliance on nuclear armaments in Europe through this expansion of conventional forces is just one expression of the President's desire to reduce the threat of all nuclear weapons. The most effective means to lessen this threat is through the continuation of the Strategic Defense Initiative (SDI). We are exploring technologies which promise to provide options for effectively defending against ballistic missile attacks -- whether directed at the United States or our allies. Such technologies could deny the Soviets the objectives of their attack, thereby discouraging them from even considering such an attack. As such, SDI would serve as a most effective enhancement to our deterrent capability.

There is no denying that our nation is now totally vulnerable to Soviet nuclear missiles. Our defense has been the threat of retaliation with our offensive weapons. The SDI is based on a different philosophy of

INTRODUCTION OF STRATEGIC SYSTEMS BY YEAR



SOVIET UNION

UNITED STATES

*AVAILABLE INFORMATION ON THE SS-16 IS INCONCLUSIVE, BUT INDICATES PROBABLE DEPLOYMENT

Chart 11

deterring war by being able to defend against attack on the United States or its allies with sufficient effectiveness to deny the Soviets their military objectives. As such, these defensive systems would contribute to deterrence and, in the unlikely event that deterrence should fail, would save lives by significantly reducing the scope of destruction that would result from a Soviet attack.

Arms Reduction

(Chart 11: Introduction of Strategic Systems by Year)

The most important means to alleviate the threat of nuclear weapons is arms reduction, hopefully leading to the complete elimination of such weapons. The United States has a history of restraint in its nuclear forces. Today, our stockpile (including warheads for nonstrategic systems) has 25 percent fewer nuclear warheads and 75 percent less nuclear explosive power (measured in megatonnage) than we had in the 1960's. We are currently in the process of implementing reductions in NATO's nuclear arsenal. Unfortunately, the Soviets have not responded to our efforts to achieve a stable balance at lower force levels.

The United States is committed to the pursuit of far-reaching nuclear arms reductions that are equitable and verifiable. Agreements like SALT I and II that simply limit or slow the rate of, and thus legitimize, future growth are not enough. At best, they divert us from the important task of achieving actual reductions. Further, the record of Soviet noncompliance with earlier arms control agreements demonstrates how vital it is that future accords be precisely drafted and include effective verification provisions.

In the Strategic Arms Reduction Talks (START) and the intermediate-range nuclear force (INF) negotiations, the United States proposed deep cuts in nuclear arms, focusing on the systems of greatest concern to each side. Regrettably, the Soviet Union walked out of the INF talks in November 1983, and shortly thereafter refused to agree to a date for the next round of START.

Last fall, the United States and the Soviet Union agreed to begin negotiations on the whole range of questions concerning nuclear and outer space arms. Secretary of State Shultz and Soviet Foreign Minister Gromyko met in Geneva in January 1985 to discuss the agenda and objectives of those negotiations. This step marks a welcome new beginning. We have a long and difficult task ahead of us, but if we are patient and persistent, I have every hope that we can achieve the deep reductions of nuclear weapons and increased strategic stability that are in the best interests of the

ACQUISITION IMPROVEMENTS

Cost Growth for Major Weapon Systems:

end of CY 1980	14%
end of CY 1983	1%

Economic Production Rates:

- In FY 1983, saved $2.3 billion in unit cost savings for 18 programs
- FY 1986 budget anticipates an additional $100 million in savings

Multiyear Procurements:

- From FY 1982 - FY 1985, Congress has approved 32 multiyear contracts, for a projected savings of $4.5 billion
- FY 1986 budget requests an additional 6 multiyear programs with anticipated savings of $1.3 billion

Increased Use of Fixed Price Contracts:

- In FY 1981, 75% of all procurement dollars were under fixed price contracts
- FY 1984, 82% of all procurement dollars were under fixed price contracts

Chart 12

United States, the Soviet Union, our allies, and the entire world. In order to reach that end, we must retain the same determination to preserve the military balance that has now encouraged the USSR to return to the negotiating table. Our firm commitment to needed nuclear force modernization, to the continued development of the antisatellite (ASAT) capability, and to the Strategic Defense Initiative is vital to the success of the coming negotiations.

Management and Acquisition Improvement

(Chart 12: Acquisition Improvements)

Each year, since I became the Secretary of Defense, I have come before you to discuss the Acquisition Plan initiated within the Department. This plan incorporates such reforms as multiyear procurement and enhanced competition to bring costs under control. The results have been most encouraging. The Congressional Budget Office has confirmed that annual cost growth on selected major systems has been reduced from 14 percent in 1980 to only 1 percent by the end of 1983. And, in the first three quarterly reports required by the Congress on these programs in 1984, our projected costs have actually gone down. In addition, several major programs, once in trouble, are back on track. The last four TRIDENT-equipped submarines were delivered to

DoD EFFORTS TO STOP WASTE, FRAUD AND ABUSE IN FY 1984

0	Audits of internal management of DoD operations and programs	-- Reports issued	18,532
		-- Potential savings	$2.7 billion
0	Investigative cases	-- Cases closed	15,837
		-- Cases referred for prosecution or administrative action	5,546
		-- Convictions	548
		-- Fines, penalties, restitutions and recoveries collected from referrals to Justice Department;	18,031
		to Military Departments	11,151
0	DCAA audits	-- Reports issued	61,081
0	Army Corps of Engineers Contract Audit	-- Reports issued	416
		-- Net savings from reports closed	$20.1 million
0	DoD inspection organizations	-- Reports	10,102
0	Follow-up actions completed	-- Audit recommendations	63,351
		-- Estimated savings	$1.9 billion
0	Defense Hotline	-- Calls and letters received	7,820

Chart 13

the Navy four to seven weeks early and the ships now under construction are on or ahead of negotiated schedules. The engine problems of the M1 tank have been solved and the tank is winning praise even from its European competitors.

We have employed more economic production rates for programs such as the P-3 and F-16 aircraft and have saved $2.7 billion in procurement costs as a result. Through greater use of competition and tough negotiating for its ships in 1984, the Navy saved enough to finance the entire cost of renovating the battleship USS Missouri. In addition, we have increased the use of cost-efficient fixed price contracts from 75 percent three years ago to 82 percent today. Further, multiyear procurement programs approved by the Congress thus far for FY 1981 through FY 1985 will save the Department of Defense over $4.5 billion.

Waste, Fraud, and Abuse

(Chart 13: DoD Efforts to Stop Waste, Fraud, and Abuse)

We have made dramatic progress over the last four years in our ability to detect and curb waste, fraud, and abuse. The Inspector General's staff has completed over 68,000 internal audits. In FY 1984 alone, there were 18,532 audit reports issued by the Inspector General's Office on the internal management of DoD operations and programs. But, the real measure of success lies in our ability to follow-up on these audits and, in this area, we have clearly made great strides. Over the past three years, 156,410 corrective actions have been completed on 50,939 DoD internal audit reports . During the same period, 2,350 corrective actions have been instituted on 1,077 General Accounting Office (GAO) reports.

DCAA

The Defense Contract Audit Agency (DCAA) is a separate agency within the Department of Defense that conducts world-wide audit activities. In FY 1984, the DCAA issued over 61,000 audit reports. The number of cases of contractor fraud reported from FY 1981 through FY 1984 has increased four fold. The percentage of audit exceptions sustained also increased from 55 percent in FY 1981 to 65 percent in FY 1984. There has been significant cost avoidance in procurement contracting due directly to these contract audit efforts.

Criminal Investigations

The Department continues efforts to detect and prosecute criminal fraud. We have established a new unit specializing in the investigation of white collar crime, the Defense Criminal Investigative Service. We have set up a special Defense/Justice Department procurement fraud unit. We reactivated the DoD

INTERNAL DOD AUDITS

You heard about the	But did you know that
$400 claw hammer	- DoD identified the overcharge, and obtained a refund from the contractor.
$110 Diode	- DoD identified the overcharge, and obtained a refund from the contractor.
$9,000 Wrench	- DoD identified the overcharge, and refused to pay.
$1,100 Plastic Cap	- DoD identified the overcharge; obtained a refund; and gave a $1,100 award to the Air Force Sergeant who challenged the price.

Chart 14

Hotline, which has produced $3.5 million in documented savings since May 1982.

Spare Parts Procurement

(Chart 14: Internal DoD Audits)

You have all heard of the problems we have experienced in our spare parts procurement. What is often not heard is that most of those pricing abuses were uncovered by DoD auditors before one defense dollar was spent. It was our own auditors that uncovered some serious problems with the way we procured our spare parts. Such was the case with the $400 hammer, the $110 diode, the $9,000 wrench, and the $1,100 plastic cap. As a result, we initiated efforts to overhaul our system of spare parts acquisition. The results have been encouraging. Industry leaders are providing excellent cooperation, even to the extent of initiating their own spare parts awareness programs. We have received over $2.1 million in refunds from over 250 contractors, while 370 Defense Department personnel have received a total of $200,000 in awards for identifying overpricing. We established a Deputy Assistant Secretary of Defense to act as a single focal point for spare parts management initiatives. Additionally, each Military Department has initiated a new spare parts reform plan to seek savings through vendor breakout and greater use of competition in spare parts procurement.

Overhead Reduction

All of this reflects what we have done in the last few years. Let me now discuss briefly two areas that we intend to pursue rather vigorously in the year ahead. We plan to place particular emphasis on reducing contractor overhead costs, which make up one-third of the price charged by prime contractors for weapon systems. In August 1984, my Undersecretary for Research and Engineering initiated a joint service review of these contractor costs. In the coming year, we will build upon the results of that survey by establishing some principles of overhead cost control and by working with industry to develop incentives for reducing overhead costs.

Elimination of Overspecification

Secondly, we will be intensifying our efforts to eliminate overspecification in defense contracts. We have made it a top-level management priority, not only in the Department of Defense but within industry, to streamline the standards and specifications that govern our procurements. Initial response to this effort has indicated first rate cooperation from industry. The Council of Defense, Space, and Industry Associations has given us their full support, as have many individual contractors. We expect to reap great rewards from this effort, not only in savings but in increased productivity.

INCREASES IN CONGRESSIONAL DIRECTIONS
FY 1970 - FY 1985

	FY 1970	FY 1976	FY 1978	FY 1982	FY 1984	FY 1985	% increase FY 1970-1985
Reports and studies requested by Congress	36	114	153	221	422	458	1172%
Other actions directed by Congress	18	208	229	210	202	202	1022%
General Provision in the Law	64	96	101	158	217	213	233%
Total directions by Congress	118	418	483	589	841	873	
Line item dollar adjustments (program changes):							
Defense Authorization	180	222	270	339 1/	958 2/	1,315	631%
Defense Appropriation	650	1,032	1,183	1,119	1,735	1,848	184%

1/ O&M not previously authorized.

2/ Ammunition procurement and other procurement not previously authorized.

Chart 15

Congressionally Imposed Requirements

(Chart 15: Increases in Congressional Directions)

While I have this opportunity, I would like to address a matter of growing concern to me and others in the Department. This involves the significant increase in the number of reporting requirements levied on the Department during the course of congressional review of our programs each year. Since FY 1970, the number of reports and studies requested by the Congress has increased almost 1,200 percent, with no apparent end in sight. Many of these are quite complex and time-consuming, not to mention their effect on higher priority projects that may go unattended because of competition for the resources to accomplish many tasks simultaneously.

In addition to these reporting requirements, the number of statutory provisions has increased 233 percent, despite our annual recommendation that many of them be deleted. Many of these provisions impose burdensome restrictions and limitations on the Department, all of which are legally binding and often result in increased costs.

In spite of the tremendous workload imposed by these requirements, Congress continues to reduce our headquarters staffing as well as cut our request for funds to conduct studies and analyses.

As you begin your deliberations on our FY 1986 budget request, I ask that you carefully scrutinize additional requirements imposed by bureaucratic procedures and legislative detail. We will do our best, of course, to cooperate with you and your staff to provide data that will assist in your review of our programs. We have placed great emphasis over the last few years on improving the overall management of the Department including the efficient utilization of headquarters personnel. We plan to continue this effort. We will need your assistance in this and hope that we can count on you to minimize the burden imposed on the Department by excessive reporting requirements and legislative provisions. In a spirit of cooperation, I believe that we can work together to eliminate these types of inefficiencies from the budget review process.

Another matter of concern is the mandatory transfer of our overseas dependents schools to the Department of Education, now scheduled for May 1986. Congress has postponed this transfer twice, but has not passed a permanent repeal. Both the Department of Defense and the Department of Education endorse a permanent repeal of the transfer requirement.

Conclusion

As Congress reviews and considers the FY 1986 defense budget request, I would like to urge, once again, that it not be lured by the deficit situation into making additional reductions to defense. I fully recognize the political process which requires that all parts of the Federal budget must contribute to controlling government spending. But I would ask Congress to recognize the $58.5 billion in reduced spending that the FY 1986 defense program has already incorporated. We cannot continue to reduce further and achieve our national security goals. Many of the defense dollars requested here today will provide weapons, equipment, or facilities as much as five years from now. The defense budget anticipates the nation's security needs over the long-term. It is too easy to make reductions today and ignore the long-range implications of such actions. We are struggling back from the consequences of that precise behavior in the 1970's. In developing the budget before you, the President and his advisors engaged in the same debates, confronted the same challenges that now face you. The President did not opt for the easy road. His decisions were based upon the vision not just of today's needs, but of tomorrow's as well. I and the entire Department of Defense are prepared to assist you in understanding the defense requirements contained in the President's FY 1986 Budget and to answer any of your questions. Thank you.

Chairman **Domenici**. General Vessey.

General **Vessey**. Mr. Chairman and members of the committee, thanks for having us here this morning. I have a prepared statement, and I would ask that it be included in the record.

Chairman **Domenici**. Yes, it will be included.[1]

STATEMENT OF GEN. JOHN W. VESSEY, JR., CHAIRMAN, JOINT CHIEFS OF STAFF

General **Vessey**. I have only a few points to make to add to those that the Secretary made, and in many cases, it is just emphasis.

First, I would like to emphasize the last point that he made, and that is that our strategy is one of defense and deterrence. You do not need another lecture on Soviet military power, and there is a book available. I am sure you will be happy to read the new issue when it comes out. The Soviet threat is very large, it is massive, and it threatens our interests and our security.

We do not intend to match the Soviets man-for-man—not even with our allies—or tank-for-tank, or airplane-for-airplane. We do not believe we have to do that in order to serve our policy of defense and deterrence.

POSTURE OF U.S. MILITARY FORCES GOOD AND IMPROVING

Now, I would like to report to you that the posture of the military forces of the United States is good, and it is improving. Our forces are manned with good people, and they are receiving good equipment from the long-delayed equipment modernization, both in the strategic forces and in the conventional forces.

The training has been improved dramatically in recent years, as a result of a long-term program of research into how best to train forces for combat.

Our support behind the forces is improving, as the Secretary pointed out. The chairman asked why there are increases in munitions funding, and funding for missiles, and so forth. The answer is, simply, we need increases in war reserves and support to be able to make those forces effective as a deterrent force.

I would just like to emphasize that those improvements in our Armed Forces have been as a result of your support and the support of the Congress and the support of the people; and, on behalf of the Joint Chiefs of Staff and on behalf of the men and women in the Armed Forces, I would like to thank you for that support and urge you to continue it.

As the Secretary pointed out, good people are the heart of our Armed Forces, and the dramatic improvements in the force that have been made come a great deal from the improvements in the people. The Secretary pointed out the dramatic rise in the enlistments of high school graduates. The thing that I would like to point out is that not only are they being enlisted but they are being retained by reenlistments. About half the force are careerists now, in contrast to 12 or 13 years ago, when 25 percent of the force was careerists.

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[1] See p. 74.

That means increased stability in the force, and it means increased efficiency in the operations of the forces.

By any standards of discipline, the force is far better than it has ever been. Absence-without-leave rates, desertion rates, and crime rates are far below anything we have ever experienced.

IMPROVEMENTS MADE IN COMBAT CAPABILITIES

The force has good equipment. The Secretary pointed out the increases in equipment, and I will not go over those again.

The one thing I would like to point out about the improvements in the Navy, not only has the number of ships gone up from 479 in 1979 to 542 today, but we have retired 50 old World War II ships in the same period of time.

The focus should not be on equipment alone. It is what the equipment produces in terms of combat capability. I would like to just cite a few examples. For example, the M–1 tank, which has now been fielded in significant numbers. Not only is it a far more capable tank, but the combination of good people and good equipment has produced outfits out there today whose tank gunnery qualification scores are 46 percent higher than they are on the old tank, the modernized M–60 version, firing over the same courses. The Bradley fighting vehicle increases the Secretary pointed out means that we now have 250 mechanized infantry squads out there in the field that can kill tanks at a range of 2 miles instead of somewhat less than a half mile and with far greater reliability than with their old weapons.

The F–16 fighter, clearly the best single-engine fighter plane in the world; now in the bombing competition, it scores as well with conventional bombs as the F–4 did with guided bombs a few years ago, and it requires about half the maintenance man-hours per flight hour that the old airplane did.

The Aegis system on the new *Ticonderoga* class cruiser provides about a ninefold increase in air defense for a carrier battle group.

In the area of mobility. In last fall's Reforger exercise, we used one of the new SL–7 roll-on/roll-off converted ships, and it carried 271 tracked vehicles, 652 wheeled vehicles, and 230 standard military containers on it from the Gulf of Mexico to Antwerp. And had it gone at full speed, which would cost a little more in fuel, it would have made the trip in 6 days instead of the normal 13 days for the old ships.

So, the combination of good people, good equipment, and good training has made some phenomenal improvements in the combat capabilities of the force.

CAPABILITY INCREASES HAVE COME THROUGH MILITIA

One of the other things I would like to point out is that the increases in capability in the force have come primarily from increases in the capability of the equipment and in training, plus additions to the force in the Guard and Reserve—not just in the Active Force. The Active Force has remained relatively stable. So, the increases have come through the militia, a typically American concept.

War reserve support is growing, as the Secretary pointed out, and it needs to continue to grow.

The improvements have been steady, but I would like to point out that the Soviet Union has not been standing still in this period. We have been gaining ground very, very slowly.

I would like to make a couple of special points. One is concerning the need to modernize our chemical retaliatory capability. We do not have a good capability to retaliate with chemical weapons today, and the Soviets know it. And our forces would be at a great disadvantage on the battlefield if we had to fight because of that. We need to fix it, and I urge your support for that.

Second, the Secretary pointed out the improvements that have been made in the strategic nuclear forces in the triad. I would like to point out that the improvements in the bomber are coming along well and on schedule. The Trident submarine is being fielded on schedule, and its new missile will come in at the turn of this decade.

The ICBM force has had its troubles in being modernized, and I would like to point out to you that that trouble is not because of technical difficulties with the weapon. The Peacekeeper is ready to be fielded. Its tests are going well; its accuracy is phenomenal. It needs to be in the force, and I urge your support for it.

GOOD PEOPLE ARE HEART OF MILITARY

I would like to reemphasize again the point about people. No matter how much we invest in hardware, good people are at the heart of our Armed Forces. We have solved some nagging problems of the last decade by having the right combination of pay and emoluments, good training, good leadership, a sense of pride in what the people are doing, and improving living and working conditions; and we are getting and keeping good people. We need to do that. We do not need to learn that lesson again. So I would urge your support for those things that recruit and retain good people in the Armed Forces of the United States.

Lastly, on the budget, the Joint Chiefs of Staff have reviewed it carefully, in light of both the threat and our strategy, and we believe that it is what is needed to support the defense strategy of the United States, and we urge your support for it.

Thank you, Mr. Chairman.

Chairman DOMENICI. Thank you, General.

[The prepared statement of General Vessey follows:]

PREPARED STATEMENT OF GEN. JOHN W. VESSEY, JR.

Mr. Chairman and Members of the Committee.

I report to you that the military posture of our Armed Forces is sound. The forces are manned with good, capable people; their armament is being improved with good, modern equipment; their training has been improved; and they have better support behind them. By every common sense measure, our forces are more ready than at any time in the recent past. These improvements are due to the support of the American people and the Congress; and, on behalf of the men and women in our Armed Forces, the Joint Chiefs of Staff and I thank you for your support. We ask for your continued assistance in the FY 1986 budget.

Good people are the heart of our forces, and I am pleased that the favorable trends reported last year generally continue. Recruitment and retention are good. About 50 percent of the force are careerists. We have a fine corps of non-commissioned officers. By every standard, we have well-disciplined, dedicated, capable Service men and women who are proudly serving their country. We need to continue to support the programs which will ensure our Armed Forces are manned by intelligent, trained, well-disciplined soldiers, sailors, airmen, and marines.

Our forces are better equipped. New, good equipment from long-delayed modernization has made its way into the hands of our forces -- active, reserve and National Guard. In FY 1984 alone, the equipment added to the force included the following important items:

- -- 769 M-1 Tanks
- -- 598 BRADLEY Fighting Vehicles
- -- 120 BLACKHAWK Helicopters
- -- 209 PATRIOT Missiles
- -- 72 Multiple Launch Rocket Systems
- -- 11 APACHE Attack Helicopters
- -- 187 New F-15, F-16 and A-10 Fighters
- -- 46 Ships (including 16 warships) and 282 Aircraft for the Navy
- -- Plus thousands of trucks, small arms, and communications items.

We have added not just quantity to our force but, more importantly, greatly increased capability. A few examples:

-- M-1 ABRAMS Tank - Average tank gunnery qualification scores 46 percent higher than those of M-60A3 crews. Last year, a US tank company in M-1's scored the highest in the prestigious Canadian Army Trophy competition against the best tank crews and tanks in the Free World.

-- M-2 BRADLEY Fighting Vehicle - High-speed battlefield companion to the M-1. More armor protection for the crew; TOW missile and cannon firepower; and greatly increased mobility in comparison to the M-113 Armored Personnel Carrier (APC).

-- Helicopters - BLACKHAWK and APACHE - Two of the best in the world. Improved lift, range, and sustainability. APACHE - vastly improved firepower and protection, and can navigate and attack at night.

-- F-16 Fighter - The best single-engine fighter in the world. Maneuverable, agile, maintainable (needs only 1/2 maintenance-man hours of the fighter it replaced). Phenomenal bombing accuracies; does as well with conventional bombs as F-4 did with guided bombs.

-- M-16A2 Rifle - Lightweight, dependable, versatile. Improved accuracy, improved sustained firing capability for the infantryman.

-- AEGIS on the TICONDEROGA Class cruiser - Provides up to nine-fold increase in air defense firepower for the protection of the Fleet.

-- SL-7 Roll-on/Roll-off (RO/RO) Fast Sealift - USNS ALGOL during September 1984. REFORGER exercise moved 271 tracked vehicles, 652 wheels, 230 military containers -- loaded in only 36 hours, and capable of traveling from Beaumont, TX, to Antwerp, Belgium, in six days instead of 13.

Our forces are well trained and they know how to fight together in ways which capitalize on the advantages the new equipment can offer. We are emphasizing joint and combined exercises. The training is realistic and innovative. The forces are trained and measured against high standards.

Support and sustainability programs are on-hand as new equipment is fielded to ensure that our forces can prevail in sustained combat. In the past three years, the funding for ammunition and spare parts has grown by over 25 percent; spare parts funding has doubled; and in Europe alone, Army ammunition on the ground is up about 16 percent.

All these factors -- good people, good equipment, good training and support -- add to our strength. The Joint Chiefs of Staff believe that this improved military posture serves as an incentive for Soviet restraint and will provide a climate for sensible negotiations. A strong national defense helps ensure the peace and safeguard our freedom.

Your support is important for the continued security of the Nation and that of our allies. Regrettably, our security and that of the West are not assured. Even under the best of circumstances, the second half of the decade of the 1980's will continue as a period of challenges to our security and as a period of widespread instability. The Soviet Union has been unrelenting in its buildup of military power and in its willingness to use or to threaten to use that power either directly or through the use of its surrogates.

As the Congress considers the defense budget, I urge the members to remember the need for day-to-day readiness. Crises too often give little warning of their approach. The lessons learned since World War II show us that no matter how good the preparations, orderly mobilization is very difficult and very costly once growing tensions indicate immediate danger. Under modern conditions, hasty improvisation of battle-ready forces is not practical even if the national treasure is spent without restraint. An Army, Navy, Air Force and Marine Corps -- in-being and maintained in readiness -- are the best military guarantors of our security; and they add weight to our diplomacy and support the other elements of our national power.

Every indication the Joint Chiefs of Staff see tells us the Soviets will most likely continue on the path they have been on, fielding stronger nuclear and conventional forces on the land, on and under the sea, in the air, and in space. The United States has no plans to match the Soviet buildup weapon for weapon. Certainly, the Joint Chiefs do not believe this should be done or need be done. However, this Nation and its allies simply must do what's needed to counter the Soviets with a military posture which makes clear that the Soviets cannot achieve their aims by starting a war or threatening war.

The Joint Chiefs believe that our strategy provides this Nation with a sensible approach to preserve the peace and to provide for our national security. It is not a new strategy. It is the strategy of deterrence which we have pursued for nearly forty years. The success of that strategy rests on ready, modern active and reserve component forces and on the maintenance of strong alliances.

THREAT

While being pleased with the improvements in our own forces, we must remember that the Soviets have not been standing still. The momentum of the Soviet military buildup, unequalled by any peacetime nation in history, will carry Soviet force expansion and modernization programs well into the 1990's. With this pace of modernization over the last ten years, the Soviets have produced about three times as many aircraft and about four times as many tanks and other tracked vehicles as the United States. They have deployed a large and powerful navy. The Soviets have the world's only operational antisatellite weapon.

Soviet forces have always enjoyed significant quantitative advantages. To counter this, the United States has traditionally relied on the qualitative advantages afforded by its technology.

The Soviets, however, are beginning to field new equipment, much of it comparable to that produced in the West, and our qualitative edge is slipping. The Soviets have achieved this through a willingness to devote large resources to research and development, through adaptation and outright piracy of Western technology, and through their willingness to accept inefficiency in order to field new equipment rapidly. They devote twice the resources to research and development as the United States and they produce five times as many scientists and engineers -- over 400,000 annually. In the past ten years, the Soviets have produced some 40 major aircraft developments, 60 major shipbuilding developments, 50 ballistic missile and space system developments, and 45 in ground forces. They develop new jet engines and several new rockets every year and they are presently testing two new attack helicopters.

With the momentum of investments in their military forces over the past decade and with sustained levels of effort in research and development, net Soviet combat power in every theater has increased. In the ground forces in the European Theater, for example, the Soviet Union along with the other countries in the Warsaw Pact has continued to increase its strength in armor, anti-armor and heavy fire support. The Soviet air forces are now flying third generation attack and fighter aircraft throughout the Warsaw Pact. They have deployed the

MIG-29 FULCRUM with look-down/shoot-down weapons systems and are expected to deploy the SU-27 FLANKER with similar capabilities. The Soviet Navy has by far the world's largest submarine fleet with 370 ships. There are 320 BACKFIREs, over 100 of which are dedicated to naval aviation and global anti-ship missions. Their surface combatants are among the most modern in the world, and they are now building a nuclear-powered aircraft carrier we believe will be large enough to operate high-performance jet aircraft.

Most ominously, the Soviets continue to modernize their strategic nuclear forces. In 1982, the Soviets deployed more, highly accurate intercontinental ballistic missile (ICBM) warheads than we intend to deploy in all of our PEACEKEEPER program. In 1983, they deployed another 200 ICBM warheads and in 1984 they were nearing completion of the latest phase of the modernization of their current silo-based strategic ICBMs. The Soviets' SS-18 and SS-19 missiles, which would total over 5,000 warheads, are in the world's hardest silos, with a redundant, survivable, command and control network. Moscow is protected by the world's only operational ballistic missile defense system. We expect deployment of newer missiles, the SS-X-24 and SS-X-25. We have yet to deploy a single PEACEKEEPER missile.

Soviet power is a reality that cannot be assumed away. With a population exceeding ours by only 17 percent, they have active armed forces two and a half times larger and ready reserves exceeding ours by about a factor of ten. We must continue to face up to the realities of Soviet military power this year and in the coming years with a sustained program that demonstrates the steadiness of our resolve to defend our interests.

WHAT THIS BUDGET PROVIDES

The Joint Chiefs believe that the budget for FY 86 supports the Nation's strategy. We participated in the formulation of this budget, and we are satisfied that the proper balance has been struck at the resource levels which have been set. This budget provides resources to continue the improvements in our Armed Forces, and it will help assure the effectiveness of our deterrent posture in the years ahead. The budget will provide the readiness today's forces need to deter war. The budget continues the modernization of the equipment for our forces. It provides for a modest growth in the size of the forces. The budget provides steady improvements in sustainability. Today's readiness needs are balanced with the need for modern forces in the future. There is sensible balance in the resources provided for nuclear and conventional forces. The budget provides substantial growth in research and development activities to help maintain a qualitative advantage for US forces in the years ahead.

STRATEGIC NUCLEAR FORCES

Our TRIAD of strategic nuclear forces is the umbrella under which all our deterrent forces operate. The TRIAD is designed as a deterrent, not for a first strike. About 80 percent of our strategic weapons are in the bomber and submarine forces and only 20 percent in ICBMs. We maintain the three elements of our TRIAD because we believe each leg of the TRIAD provides special strengths which reinforce the deterrent value of the other legs and which help guard against tactical and technical surprise. The TRIAD has been the basis of our deterrent posture for over two decades.

The United States delayed its strategic nuclear modernization, and we have had to modernize all three legs of the TRIAD at the same time. We are making steady progress with the bomber and submarine force modernization. The TRIDENT submarine program will modernize our aging ballistic missile submarine fleet and the D-5 missile will add new capabilities to the force at the end of this decade. The B-1B program is on schedule; it will be in the operational force next year. It will provide a modern, responsive bomber capable of penetrating Soviet defenses.

The modernization of the intercontinental ballistic missile force has had a series of delays well known to this committee. The delays have not been technological or system delays; the missile is performing superbly. The Joint Chiefs of Staff urge the immediate deployment of the PEACEKEEPER. Its deployment will strengthen the TRIAD, help ensure deterrence, and strengthen the position of our nuclear arms negotiators. The PEACEKEEPER is tested and proven, and it is ready for deployment. The Joint Chiefs of Staff fully agree with the conclusions of the bipartisan President's Commission on Strategic Forces that we must proceed now with the deployment of the PEACEKEEPER in order to maintain the effectiveness of the TRIAD and our deterrent strategy into the next century.

Research and development on the small ICBM is proceeding. It will add the new dimension of mobility to the ICBM forces in the mid-1990's.

STRATEGIC DEFENSE INITIATIVE

The Joint Chiefs support the President's Strategic Defense Initiative (SDI) to have this Nation employ its technological talent to determine whether an alternative to sole reliance on offensive retaliation is feasible. Within the bounds of the ABM Treaty, the United States is exploring means which provide the hope that we can end the dominance of offensive ballistic missile weaponry.

CHEMICAL

The Soviets have extensive offensive and defensive chemical warfare capabilities. Our lack of a modern, chemical retaliatory capability detracts from our overall deterrent posture. Should deterrence fail, our forces would be fighting at great disadvantage in spite of the strides we have made in improving defenses against chemical weapons. Unless we modernize our chemical munitions and continue to provide for a sensible research and development program to prevent technical surprise, we provide little incentive to the Soviets for negotiating a verifiable arms control agreement prohibiting chemical weapons. This budget provides for long leadtime items and facilities in order to begin production of binary chemical weapons, weapons which are safer to store and to employ and which help reduce the likelihood of the use of chemical weapons in the first place.

NEGOTIATIONS

The Joint Chiefs fully support efforts to obtain genuine, equitable and verifiable reductions in armaments. Arms control and other related negotiations are being pursued with the idea that equitable and verifiable agreements can contribute to security and stability. Negotiations are not a substitute for force modernization; rather, negotiations and our modernization programs are mutually reinforcing. We must modernize our own systems even while we seek genuine reductions in force levels through negotiations.

PEOPLE

No matter how good the strategy or excellent the equipment, good soldiers, sailors, airmen and marines remain the heart of our defense forces. This Nation has very good people in its Armed Forces today because of the Nation's renewed pride and faith in those people and the willingness to pay the price for adequate security. The men and women in uniform need to know we will give them the best possible equipment, training and support for their difficult tasks; and they need to know this Nation will provide reasonable pay and compensation for them and adequate support for their families. As we continue into a period of economic recovery and as we face a declining manpower pool, we must guard against the erosion of pay, retirement, and other benefits. We surely do not want to return the forces to the unstable personnel picture of the mid-1970's. The budget provides the right sort of support.

CONCLUSION

In conclusion, I want to repeat what I said before this Committee a year ago: that this Nation and its allies must remain strong and steady. Last year I reported to you that we were making progress in reversing the decline of the 1970's in our general purpose forces and that we were in the early stages of modernizing our strategic nuclear deterrent forces. That progress continues. It is important that we sustain that progress in order to maintain the effectiveness of our deterrent strategy.

When the Joint Chiefs look at the Soviets' forces, we see forces that are very large and capable of offensive operations on a global scale. We see their willingness to use their forces and those of their surrogates in Asia, Europe, Africa and in this hemisphere to achieve their aims. Our forces are designed for deterrence. That has been our strategy since World War II, and it's been a sensible strategy.

The Joint Chiefs have examined the strategy and the threat, and we believe that this budget will continue to improve our forces by providing good people, good equipment, good training, and good support. As I said at the beginning, we need not match the Soviets weapon for weapon or man for man; but, this Nation absolutely must continue to deal with the unrelenting growth of Soviet power and with the realities of an increasingly interdependent and dangerous world. I urge your support for the President's defense budget.

BUDGET RESOLUTION COMMITMENTS LIVED UP TO

Chairman **Domenici**. For the Senators, let me make one observation. To the extent that the Secretary of Defense left an implication that the increase in the deficit from $180 billion to $222 billion is the result of the Congress not living up to the budget resolution or commitments that were made on spending.

Let me briefly tell you what the facts are. The comparison, Mr. Secretary, should be corrected, because you were comparing apples and oranges. First of all, the fiscal year 1985 deficit estimate was $180 billion. But what we have done at the suggestion of OMB, and we have been wanting to do it for a long time, is to include off-budget items. So, with no change of program and no violation of any commitment, you add $15 billion, so that is $195 billion. And $195 billion is the figure that should be compared to the $222 billion that the Secretary alluded to. Let me tell you how that charge came about.

There was an Internal Revenue Service ruling that certain bonds of the Federal Government in the housing field were not tax free, and consequently, that created a default on the part of the National Government, who consequently had to buy the notes. We owed the money over time, but we had to buy them up. Now, I cannot believe anybody here had anything to do with that, but that amounted to $14 billion.

I do not know what you can do on interest other than, at the end of the year, figure out what it is. And it turns out that the net interest estimates were $14 billion too low, so that adds another $14 billion.

Then, revenues. The revenues came in $18 billion less. He has alluded to that. You have got to add that. And then you look at what programs actually went up, and the only one that went up was the farm program, and that is an estimate. All you can do is estimate the cost. That is in the law; we did not change or add anything to it. That is $6 billion more.

So we add all that up, and indeed, we did exceed expenditures by the sum total of $3 billion. So we will confess to that much variance in behalf of the Congress. I am not saying this to defend that we have been fiscally prudent, but only to say that we lived up pretty well to the commitments made by the people and to the budget estimate that we gave.

I am going to go very quickly, but I hope you do not take that out of my 5 minutes. I thought we ought to correct the record.

Mr. Secretary and General Vessey, we have spent substantial amounts of money. You have indicated to us that you appreciate that. We also appreciate the fact that you appreciate it, but we want you to know that most of us do it for the same reasons you do it, because we want to build the defense of our country.

DEFENSE CAPABILITY HAS IMPROVED

Would you both agree that with these expenditures, we have substantially improved the American defense capability?

Secretary **Weinberger**. Certainly, without any question. We have improved it. We have a long way to go, but we have improved it.

Chairman **Domenici**. General Vessey?

General **Vessey**. I think I made that clear in my statement.

Chairman **Domenici**. Now, let me tell you what——

Secretary **Weinberger**. Mr. Chairman, could I just add one thing? The purpose of our chart was not to lay blame on anybody for increases in outlays or anything of that kind. It was simply to show that these things happen, inevitably, particularly if you bring in and add off-budget items that have not been there before.

But the point of the chart was to show that we had had a decrease in our outlays by $18 billion, half of it inflation, and half of it better management.

That was the only point of the chart. We were not trying to blame anybody. We know these things happen. They even happened 10 or 12 years ago, when I used to try to deal with them.

Chairman **Domenici**. I thank the Secretary. I also would suggest that of your savings, a substantial portion, then and this year, will be when you finally estimate what your policies—with nobody cutting anything—what the outlays were, and they are going to come out substantially less.

Secretary **Weinberger**. Yes, we estimate right now that we will have a decrease in outlays in fiscal year 1985 of $18 billion, below what was estimated originally in fiscal year 1984. And that is fine. As I say, half is inflation, and whatever causes a lower reduction, the better. The money does not go out of the Treasury.

PRESIDENT'S GOAL A GOOD ONE

Chairman **Domenici**. All right. I am just going to ask one question, and let me preface it by saying I hope you understand, both of you, and everybody who is concerned about the defense of our country, that as chairman of this committee, I see our responsibility to come up with a package of outlay cuts close to the President's $50 billion or more. I think it is a good goal, and I hope we can do it and maybe exceed it.

I would assume without even asking either of you or both of you, that you agree with the President's goal of substantial deficit reduction, and that you agree that $50 billion is a pretty good number to start with in terms of getting this deficit down.

We are only trying to do that. That is our mission, and we think it is part of the American economic prosperity that we are speaking of, and so that is our goal. We do not have any motives with reference to any department of government. It is to get the deficit down.

Now, having said that, I would be less than candid if I would not say to you, Mr. Secretary, when the hypothetical is asked, what would happen if the budget authority was frozen, and you give me, or this committee, or Congress, a long shopping list of important programs that would have to be terminated—may I be honest and say I have a great deal of difficulty believing that that would be the result.

Now, let me tell you why. I am looking at the strategic systems. When we started in 1980, we spent $1.3 billion. The request is $20.7 billion. I am looking at the total list of conventional. When we started this process in 1980, it was $4.7 billion. Now it is $24.6 billion. And I can take the other accounts that make up the entire package, and those are the numbers that permitted you all to say we have substantially improved our posture.

Now, over that period of time—I have two questions—how much was the budget authority for the Defense Department reduced from the request to what Congress ultimately approved that yielded these increases that I am talking about?

Do you have a number for the budget authority diminution over these 5 years, your request versus what we actually gave you?

Secretary WEINBERGER. The Congress enacted about 95.5 or 96 percent—about 95.5 percent—of what we requested.

LARGE NUMBER OF WEAPONS SYSTEMS ELIMINATED

Chairman DOMENICI. All right. What weapons systems were eliminated from the requested arsenal, strategic or conventional, in going from 100 to 96 percent of the request?

Secretary WEINBERGER. Well, there are a large number. The biggest one of all was the multiple-protective system for the MX, the so-called racetrack proposal. That was eliminated, and that was in the neighborhood of $30 billion that it would have cost the entire time. That is not a total net saving, because we do have expenditures that are not anywhere nearly that high for deploying the MX and we hope you will approve them. But that is one of the biggest ones.

We have—and I will put in the record for you and can go through a number of them—eliminated individual programs, and we have slowed down a great many.

Chairman DOMENICI. Well, I know that Congress did not make the decision to change that basing mode, but that is not terribly relevant to the question, because——

Secretary WEINBERGER. I thought you asked which ones we had cut out.

Chairman DOMENICI. Yes; when we went from your budget authority to the budget authority that we gave you, I wanted a total number. I do not know what that is, the total budget authority diminution.

Secretary WEINBERGER. The diminution, I think over that 5-year period, it was approximately $50 billion, I believe.

Chairman DOMENICI. All right, $50 billion.

Secretary WEINBERGER. I should get the exact figure for you for the record, but I believe that is it.

[The following was subsequently supplied for the record:]

Defense Reductions

ANSWER: Scorekeeping adjustments to budget requests is not an exact science, since proposed Administration adjustments and subsequent congressional actions may or may not overlap. For example, the Department of Defense did not submit an FY 1985 amendment following the Rose Garden agreement, but the Department did make available a list of reductions totalling $13.9 billion from which they made a number of reductions. By our calculations, the Congress has made reductions in excess of $53 billion to defense programs for fiscal years 1982 through 1985.

A summary of the types of adjustments imposed by the Congress by appropriation title follows. The information is not all-inclusive, but attempts to address some of the major areas affected by congressional action.

Military Personnel: FY 1982: The Congress reduced funding requested for recruiting and advertising by $25 million, reenlistment bonuses by $179 million, and other reductions to active and reserve accounts totalling $65 million.

FY 1983: The Congress provided only 75 percent of the funding required for the FY 1983 pay raise, necessitating program reductions of $364 million in other accounts; disallowed several new initiatives for PCS, BAQ, special and enlistment/reenlistment bonuses; capped BAQ, lowering VHA payments; created $50 million shortfall in Retired Pay account due to failure to provide funds for surviving spouse support, again leading to forced reductions elsewhere.

FY 1984: The Congress denied over 77 percent of the requested strength buildup resulting in a reduction of $200 million. Another $400 million was cut from compensation and entitlement programs, such as enlistment/reenlistment bonuses, incentive pays and PCS travel reimbursements. Over 60 items in this title were adjusted by the Congress.

FY 1985: The Congress reduced the active end strength request by 6,330 and the reserve end strength request by 3,570. The Congress also enacted a new educational assistance program, but without funding, resulting in an unbudgeted requirement of around $40 million in FY 1985 (and $170 million in FY 1986).

Operation and Maintenance: FY 1982: The Congress reduced Stock Fund War Reserves by $82 million; denied $12.5 million associated with shipment of 2 sets of equipment to POMCUS sites in Europe; and refused to approve $40 million for maneuver damage claims for the Federal Republic of Germany.

Defense Reductions (Cont'd)

FY 1983: The Congress deleted $2 billion for pricing adjustments, primarily in fuel and foreign currency, and another $1 billion for a large number of items, such as Army Force Modernization ($157 million), FMS surcharge ($83 million), POMCUS 5 and 6 ($32 million), travel ($90 million), consultants ($100 million), Air Force Contract Depot Maintenance ($190 million), Navy Depot Maintenance ($100 million), and civilian personnel ($70 million).

FY 1984: The Congress reduced this title by over $2 billion, making adjustment in over 200 O&M items. Reductions were made in Air Force tactical flying hours and ship and aircraft depot maintenance. The bulk of the reduction was in support areas. Significant cuts were made in civilian manpower, ADP support, industrial plant equipment and operating supplies.

FY 1985: The Congress deleted an additional $1.5 billion, beyond the May revisions, for foreign currency, fuel pricing, and stock and industrial fund pricing adjustments.

Procurement/RDT&E: FY 1982: The Congress deleted all funding requested for the Fleet Hospital program ($87.8 million). B-1B procurement funding was reduced by $100 million and RDT&E funding by $179 million.

FY 1983: Limitations were placed on C-12 aircraft, Pershing II, MLRS multiyear procurement, and the M-1 tank. Second source was directed for TOMAHAWK and HARM missiles.

FY 1984: The Congress made adjustments to over 350 programs, resulting in a reduction to procurement accounts of $7 billion. This included reductions to spare parts procurement; deletion of 38 trainer aircraft; deletion of two Navy support ships; the loss of multiyear procurement savings of $1.3 billion because of disapproval of 8 of the 14 requested multiyear procurement candidates; the deletion of 131 Army and Navy missiles; a reduced pace for replacing engines in the Air Force KC-135 tanker aircraft; and a slower procurement rate for the Marine Corps AV-8B aircraft. The RDT&E accounts were reduced by $1.8 billion, with over one-third of the 900 RDT&E programs being adjusted. Major reductions were made to the Follow-on ICBM and Defensive Technology programs.

FY 1985: The Congress reduced the FY 1985 procurement program by an additional $2 billion from the May revision, and $10.5 billion from the February request. The PEACEKEEPER missile program was reduced by $2.1 billion. Reductions also included the F-15/F-16 Tactical Fighter Roadmap; two C-5B aircraft; six F-15 aircraft; one TAK resupply ship; one TAGOS

Defense Reductions (Cont'd

SURTASS SHIP; 12,000 TOW-2 antiarmor missiles; 23 PERSHING II; three PATRIOT air defense fire units; spares and repair parts, and aircraft modifications. RDT&E programs were reduced $2 billion from the May revision and $2.8 billion from the February request. The Congress denied $12 million for payments to the Marshallese for the Kwajalein Missile Range and $3.9 million for Sidewinder improvement; reductions were made to JSTARS, MLRS, Terminally Guided Munitions, CV-ASW helicopter, ICBM modernization, B-1B, classified programs; the Space Boosters program; and the SDI program was reduced by $377 million.

In conclusion, while the above constitutes examples of congressional actions over the past five years, the true consequences of many the reductions are more involved than fewer aircraft, ships or weapons. The real consequences of these reductions are program stretchouts, increased costs, procurement inefficiencies, delayed introduction of new technologies, slower modernization of our forces, and smaller increases to readiness and sustainability. Additional reductions to the defense program or a freeze on defense funding levels would only further aggravate these consequences, which have long-term implications for our future defense capabilities.

Chairman DOMENICI. All right. How much budget authority increase do you have in this year's request for 1986 over 1985?

Secretary WEINBERGER. About $29 billion.

Chairman DOMENICI. About 29. So you were able to get 96 percent of the weapons systems and everything you requested with a $60 billion budget authority cut over the 5 years.

Secretary WEINBERGER. Over a 5-year period, yes.

Chairman DOMENICI. And you were telling us that if we reduced $29 billion and froze the defense budget that we would have to get rid of a list of weapons systems that you cannot even give us today because it is too long?

Secretary WEINBERGER. Yes, well, unfortunately, that is the way budget authority plays out over the years, Mr. Chairman. That is exactly the problem—what you do and what you have to do if your authority is gone, and you no longer have any ability to make additional obligation because of a freeze. You then have to start making these reductions or pay termination costs, or do things of that kind. That is why your outlay effect of it is not all that great.

The other thing is the assumption with a freeze then we would start next year making it up again. That is somewhat like attempting to put a pay freeze into effect. You think you get a reduction in pay or a reduction in prices for 1 year, but you find usually that the explosion that is caused by that when you try to make it up with whatever inflation is then in effect actually costs a great deal more.

Also, I do not know when there would ever be a year when anybody would feel that it was proper, then, having had a freeze, to get back and start regaining the strength that we need in this kind of a world.

I understand exactly the problems that the committee has. What I am trying to urge is that we cannot look internally only and say that we have to, because of present fiscal conditions, seriously interfere with regaining the degree of security that we need.

SYSTEMS DELAYED BY BUDGET AUTHORITY REDUCTION

Chairman DOMENICI. Well, let me just ask this last one. Senator Chiles reminded me of a number, and maybe it is even more appropros than my $60 billion.

Quick numbers would indicate that we reduce budget authority, the 1985 request, over what we gave you by $21 billion. I do not know of one weapon system that was canceled with $21 billion reduction in budget authority.

Secretary WEINBERGER. There were a number of systems that were delayed; and there were a number of systems that were thereby made more expensive.

But before the budget even reaches you, a number of systems have been taken out. Again, we have the lists here and can go through them all.

We took out 12 F-15's; 36 F-16's—and we did not cancel the program, because the F-16 is a very good airplane, and so is the F-15—but we took out 36 and 12 of those. We took out 3,000 Stinger missiles; and 4,500 Mavericks; we took out ammunition in the amount of approximately $2 billion. We took out a very large number of trucks and armored earth-movers, and we gave up a lot of maintenance. We started building maintenance backlogs that we had reduced.

When you get cuts of this kind, they are not illusory. They are very real, and they require us to go back through.

Now, I will say very proudly, Mr. Chairman, we try to make cuts in a way that hurts the Department the least. I have had some of your colleagues say to me, "We do not like those cuts because they do not hurt the Department." And that, to my mind, is praise. But I think there is just no way you can make these cuts without giving a lot of things up that I think are necessary.

Chairman DOMENICI. Thank you very much.

Senator Chiles?

DOD MUST SHARE 5-YEAR DEFENSE PLANNING

Senator CHILES. Mr. Secretary, those of us who have worked with the budget have learned to deal with it in 3- or 5-year terms if we are going to get any control over the spending. By passing 3-year reconciliation bills, we have made those major cuts in entitlement programs and major changes in the tax code.

If we want to get control of the deficit, I think we are going to have to deal with defense in the same way. We are going to have to have you share your 5-year defense plans with us, and we are going to have to balance that against what the economy can afford, and make some tough choices.

I am afraid we set the stage for flooding the defense contractors with money and taken; away any incentives for choosing among weapons when you came up here in 1981 and asked for a $35 billion increase. At that time, you could not give us a list of what you wanted to buy, but we gave you the money, and the services figured out how to start spending it. Each year after that, we have had a great debate over the rate of growth, and we have attempted to tighten your belt a little bit. As you have testified today, and as David Stockman testified Tuesday, we still have not made any real choices. We slow down something, or we take it out of stockpiling, or we take it out of our fuel adjustments. You make some financial adjustments and repricing, which is just eliminating the cut insurance, but we have not seen any real choices in the weapons systems. The next year, you come back, and you start off as if there had been no cuts.

You refuse to follow the outyear targets in the budget resolution, even when they have been negotiated by Democrats and Republicans, and endorsed, if not signed, by the President.

You refuse to discuss any options on different ways to save money and keep insisting that you need whatever dollars you have requested. The result is each year we have a debate on how much we add to last year's budget.

When I look at these charts and see where all this has brought us, I see a doubling of the defense budget in 5 years, 99-percent real growth in procurement, and no clear idea as to how we could fight more effectively than we could then.

MUST FOCUS ON EFFECTIVE SPENDING

I, for one Senator, have decided that I have got to switch my focus away from how much growth and start trying to look at how we are going to spend effectively and efficiently, the money we have built into the system. You have said it correctly here today. We are not going to slow this thing down over the next 3, 5, or 8 years because of what we have put into it. But I think we had better start looking at what we are buying, and whether we are going to get something meaningful out of it.

I would like to look at your chart again on the acquisition improvements.

Secretary WEINBERGER. All right. There are three of them, I think, Senator——

Senator CHILES. If I can put that one up again—it was the one that had to do with the cost——

Secretary WEINBERGER. Is that the one?

Senator CHILES. Yes; acquisition improvement, cost growth for major weapons systems.

Secretary WEINBERGER. Right.

Senator CHILES. Mr. Secretary, you show us at the end of 1980, we were having 14- percent cost growth.

Secretary WEINBERGER. That is right.

Senator CHILES. At the end of 1983, we were only having a 1-percent cost growth.

Secretary WEINBERGER. That is right, for these major systems on which we have to report.

Senator CHILES. Well, what about 1981 and 1982?

Secretary WEINBERGER. Well, we have——

Senator CHILES. You had a 12-percent cost growth in each one of those years.

Secretary WEINBERGER. Senator, we were bringing it down. It was below 12 in the second year, and it is down to one this year, or in 1983.

Senator CHILES. Well, to me, Mr. Secretary, that really shows you what anybody can do with a chart. You make it look like from 1980, when you came in and had a great team, 14 percent, and now it is all the way down to 1 percent——

Secretary WEINBERGER. That is what it is.

COST GROWTH BUILT INTO SYSTEM

Senator CHILES. In 1980, we were already starting the buildup and the acquisition. We were already putting this money out there to defense contractors. And what we see in 1980, 1981, and 1982, like 14 percent, 12 percent, and 12 percent—yes, it starts coming down in 1983, because we have already built that cost growth into the system.

Secretary WEINBERGER. Could I bring into the record at this point the actual cost reduction of specific systems?

Senator CHILES. I would like you to.

Secretary WEINBERGER. On the F-15, we were down 3 percent in the latest SAR. In the F-18, we are up 1 percent. In the M-1 tank, it was down 3 percent.

Senator CHILES. The M-1 tank is up 46 percent, from 1980.

Secretary WEINBERGER. From 1980, yes, but not in the last——

Senator CHILES. Well, how in the hell are we bragging about being down 1 percent now, when we are up 46 percent from 1980?

Secretary WEINBERGER. Because the important thing is to look at whether this cost growth has been gotten hold of.

Senator CHILES. The important thing is we put so many dollars out there that we can only buy half the number of tanks we could buy in 1980, when we could have had twice as many tanks if we had simply had more competition out there.

Secretary WEINBERGER. Well, Senator, I wish we had more competition. The Congress has forbidden us to have competition for the tank engine. We are required to use only one supplier, and I wish we could have competition.

Senator CHILES. You have got 10 major defense contractors, and they are all awash with money. They have all got a backlog going they cannot complete now. Mr. Secretary, you know supply and demand and economics better than I do. You know what happens when you cannot supply a demand. You raise the cost.

Secretary WEINBERGER. Senator, that is how we were able to come in under the outlay estimates to a very considerable extent. Because we did have competition that we fostered, which is producing a lower price.

Senator CHILES. Aircraft carriers are up 49 percent. The F-18 fighter is up 59 percent. The F-16 fighter is up 25 percent.

Secretary WEINBERGER. Senator, what you are doing is building in those figures, the cost growth that was rising before we were here and before we were able to get ahold of the process. Now, we are reducing——

Senator CHILES. Oh, I see, so it is another fault of the Carter administration.

BUILDUP COST GROWTH IN HAND NOW

Secretary WEINBERGER. No, sir. I am telling you this goes back even before then. A lot of these programs started long before he was President. There is a built-in cost growth, and it takes a long time to get hold of it. We have hold of it now with these major systems.

Senator CHILES. I cannot believe, Mr. Secretary, that you just sort of disregard the law of supply and demand that tells us when we have got too many dollars chasing too few systems and little incentive for austerity, we are going to see that cost growth go up.

Secretary WEINBERGER. Well, Senator, we do not have problems with contractors being unable to complete the work on time, and we do not have problems with their being able to do it below the estimates. That is why we are coming in with lower cost growth each year—and I am delighted we are.

Senator CHILES. I wonder if you would provide for the record the increase in the unit costs for each of the major weapons systems contained in your analysis.

Secretary WEINBERGER. We have done it with the SAR's, we will do it again, and you will see the reductions which I think are an achievement now coming in these reports.

Senator CHILES. Thank you, Mr. Chairman.

[The following was subsequently supplied for the record:]

It should be noted that we are not talking about a DoD analysis but rather a July 1984 Congressional Budget Office Special Study titled, "A Review of the Department of Defense December 31, 1983 Selected Acquisition Report." The chart previously presented in this testimony shows only the 1980 and 1983 CBO figures which indicate the rate of cost growth dropping from 14% to 1%. The following complete chart from the CBO study shows in then year dollars that the cost growth rate has declined from 14% in 1980 to 12% in 1981, 3.5% in 1982, and to about 1% in 1983. In base year dollars, the cost growth rate was about 7% in 1980, 7.5% in 1981, 2.3% in 1982, and less than 1% in 1983.

The following table shows the program acquisition unit costs for the programs in the CBO analysis beginning in 1980. These are the same unit costs you require us to monitor in accordance with title 10, United States Code, section 139b, commonly referred to as the Nunn-McCurdy amendment. It should be noted that the 1980 figures reflect the last Carter Administration Five Year Defense Program (FYDP) while the 1981 figures reflect this Administration's first FYDP. The 1981 figures also reflect the beginning of our Acquisition Improvement Program (AIP), which includes realistic budgeting.

Following initiation of the AIP, the percentage of systems in the CBO study experiencing unit cost increases dropped from 71% in 1981 to 55% in 1982 to 27% in 1983. The trend in the number of systems experiencing unit cost increases is clearly coming down. In addition, the number of systems requiring congressional notification because their "Nunn-McCurdy" unit costs increased by more than 15% has declined from 24 in 1982 to nine in 1983 to two in 1984.

The actual increases in unit costs since 1980 are quite different from the figures you cited earlier. The M1 tank has increased only 6%, not 46%; aircraft carriers are not up by 49%, they are down 2% for the CVN 71 and 4% for the CVN 72 and 73; the F-18 is up 5%, not 59%; and the F-16 is up 20% not 25%, due primarily to the effect of inflation on the 90% increase in outyear quantities.

ANNUAL RATE OF COST GROWTH FOR SELECTED MAJOR ACQUISITION PROGRAMS (Excluding Economic and Quantity Changes)

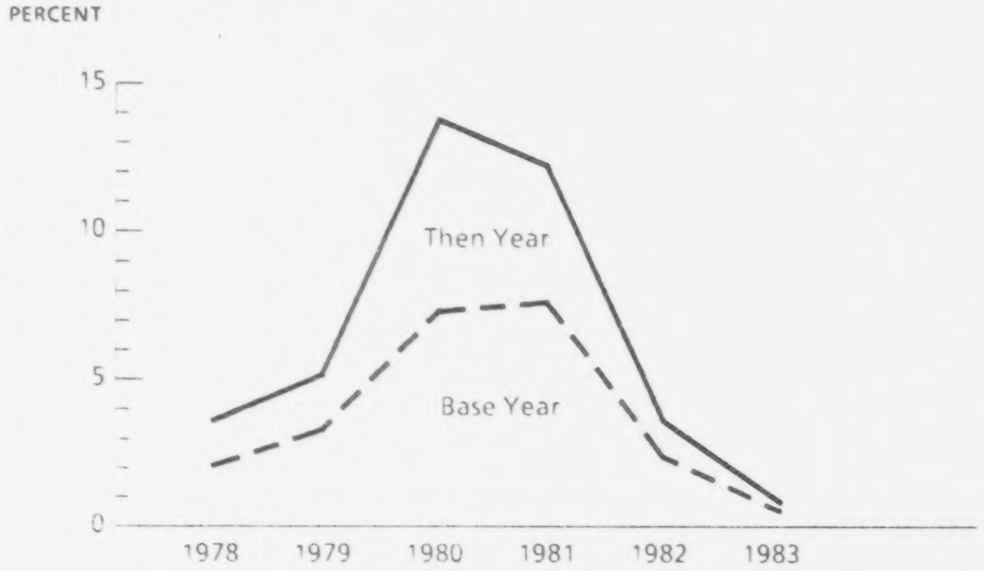

Figure 1

Source: Congressional Budget Office Special Study "A Review of the Department of Defense December 31, 1983 Selected Acquisition Report (SAR), July 1984

PROGRAM ACQUISITION UNIT COST -- ARMY

(Then Year Dollars in Millions)

Program	Year			
	1980	1981	1982	1983
AH-64 (APACHE)	12.11	16.22	14.06	13.98
AHIP (OH-58D)	---	---	4.36	4.21
AN/TTC-39, AN/TYC-39	5.39	5.20	5.47	5.27
BLACKHAWK	5.89	7.01	6.61	6.55
CH-47D (CHINOOK)	7.20	7.19	7.48	7.75
COPPERHEAD	0.03	0.03	0.07	0.05
HELLFIRE	0.07	0.06	0.05	0.05
MLRS	14.80	12.10	12.20	10.70
M1 ABRAMS TANK	2.68	2.77	2.88	2.84
M2/M3 BRADLEY FVS	1.77	1.84	1.54	1.64
PATRIOT	77.07	99.16	108.16	109.83
ROLAND	32.75	43.90	---	---
SGT YORK	8.21	6.65	6.63	6.74
STINGER (FIM 92A)	0.06	0.08	0.08	0.08
TACFIRE	3.63	3.59	---	---

PROGRAM ACQUISITION UNIT COST -- NAVY

(Dollars in Millions)

Program	Year			
	1980	1981	1982	1983
AMRAAM	---	---	.45	.43
AV-8B (HARRIER II)	---	30.92	30.27	26.55
BATTLESHIP REACTIVATION	---	---	469.15	473.55
CAPTOR (MK 60 MINE)	.39	.38	.39	.39
CG-47 AEGIS CRUISER	1127.60	1149.30	1168.05	1107.06
CVN 71 CARRIER	2584.70	2633.50	2564.40	2521.20
CVN 72/73 CARRIERS	---	3709.50	3633.00	3574.60
DDG 51 DESTROYER	---	---	1217.06	1065.04
F-14A (TOMCAT)	23.32	42.41	39.98	42.57
F-18 (HORNET)	27.52	28.85	28.92	29.01
FFG-7 CLASS FRIGATE	191.10	237.43	196.45	193.28
FIVE INCH GP	.05	.09	---	---
HARM (AGM-88A)	.36	.36	.43	.41
HARPOON	.98	1.03	.96	1.01
LAMPS MK III AIRCRAFT	23.20	25.41	32.72	28.54
LAV	---	---	.96	.96
PHALANX CIWS (OLD)	3.95	4.19	---	---
PHM	68.90	77.10	---	---
PHOENIX (AIM-54 A/B)	.72	.85	---	---
PHOENIX (AIM-54C)	---	---	1.21	1.17
SIDEWINDER (AIM-9M)	.16	.09	.10	.10
SPARROW (AIM-7M)	.15	.19	.21	.21
SSN-688 CLASS SUB	333.86	433.32	473.80	485.76
SUPER STALLION (CH-53)	21.47	26.80	23.14	21.58
TACTAS	11.15	11.24	11.37	12.15
TRIDENT I	2115.45	1899.89	2143.55	2117.91
TRIDENT II (MSL)	---	---	50.87	48.94
TRIDENT II (SSBN 734)	---	---	2012.17	1941.81

PROGRAM ACQUISITION UNIT COST -- AIR FORCE

(Then Year Dollars in Millions)

Program	Year			
	1980	1981	1982	1983
A-10 (THUNDERBOLT II)	6.81	7.39	---	---
ALCM (AGM-86B)	1.76	1.85	2.80	2.56
AMRAAM (AIM-120A)	---	---	.46	.45
B-1B (LRCA)	---	295.38	283.30	283.03
B-52 CMI	---	---	3.04	2.97
B-52 OAS	---	---	6.66	6.70
DSCS III	88.70	122.80	127.90	114.34
E-3A (SENTRY)	131.00	135.10	147.60	139.65
E-4	177.50	124.00	---	---
EF-111A (JTS)	34.04	34.71	36.75	37.49
F-15 (EAGLE)	19.05	28.66	28.19	27.69
F-16	15.69	20.48	20.02	18.77
GLCM (BGM-109G)	4.79	5.85	6.36	6.61
HARM (AGM-88A)	.24	.28	.36	.32
IR MAVERICK	.07	.08	.10	.10
LANTIRN	---	---	5.76	5.31
NAVSTAR GPS	57.70	62.90	62.00	64.72
SIDEWINDER (AIM-9M)	.08	.07	.07	.07
SPARROW (AIM-7M)	.12	.16	.20	.20

Chairman **Domenici**. Thank you, Senator Chiles.

Senator Andrews.

Senator **Andrews**. Thank you, Mr. Chairman.

Mr. Secretary, I believe you are absolutely correct in saying that we must meet our national security needs based on external threats. Of course, there are many others, other people besides you and your staff, whose opinions should be known in judging our national security needs. Those of us who read the news are concerned about what is happening, or what will happen, following the Israeli withdrawal; we are concerned about the Iran-Iraq war and that part of the world; we are concerned about the car bomb attack that took place just yesterday.

CRITERIA THE SAME FOR ALL FOREIGN POWERS

I have read press accounts that the administration is considering now a major new arms sale to Saudi Arabia—40 F-15's, 1,000 Stingers, 3,000 Sidewinders. I understand that consideration of the sale was put off for a couple of weeks. Can you tell me what criteria you feel must be met before you intend to proceed with this sale?

Secretary **Weinberger**. I do not have any information when or if such a sale is to be completed, Senator, but the criteria is the same as that which applies to all sales to foreign powers, and that is the weapons must be used only for self-defense, and must be used in areas that are specifically earmarked in the actual sale documents, and there are many that are tailored for very specific sales.

Generally speaking, they are sales that are designed to improve the security of the United States and the security of our friends and allies. In that area, where we have made sales in the past—and I am not talking about the numbers that you are talking about, but where we have made sales in the past—the idea has been to try to increase the security of the whole region, including in the Mideast, of course, Israel, our firm ally.

Senator **Andrews**. Have we ever made massive sales of Stingers and Sidewinders to a non-Allied nation? These are wonderful weapons for terrorism.

Secretary **Weinberger**. Well, yes. There have been sales made to a number of countries in that region, to——

Senator **Andrews**. To a non-Allied nation?

Secretary **Weinberger**. Yes—to Saudi Arabia, or to Jordan in the past, to Kuwait, to Iran, in years past—a number of sales have been made to countries that we have not formal alignments with, where we feel it will advance the security of the United States. Sometimes, there are mistakes made. Iran was a mistake, because that government fell and turned into a very hostile power.

But we try through this means, and I think it has been demonstrated, which can actually have a greater value for our own security and safety through foreign military sales than sometimes direct expenditures ourselves.

Senator **Andrews**. Mr. Secretary, when will a final decision be made on this sale?

Secretary **Weinberger**. I have no idea. Whenever it is, it will obviously be before you, because under the current statutes, you have to have notification——

Senator **Andrews**. And you certainly are going to be in the loop in making that decision.

Secretary **Weinberger**. Well, sometimes our opinion is requested, yes.

PAST SALES HAVE IMPROVED SECURITY OF REGION

Senator **Andrews**. Well, I am glad to know you are still aboard in that consultation. Some Senators, Mr. Secretary, voted for the AWACS sale in 1981, some of us somewhat reluctantly, because of a letter sponsored by Senators Warner and Nunn which stated that the Saudis would participate in the peace process before the AWACS would be delivered. Now, looking at your proposal of this kind of a sale of even more offensive weapons systems, does this mean that you feel the Saudis were actually helpful in the peace process?

Secretary **Weinberger**. Well, Senator, you start out your question by saying, "Looking at your sale" and "your proposed sale." I have tried to say that there is no sale before the Congress; there is no decision made on any of these matters at this time.

But I will say with respect to past sales that we think they have improved the security of the region. Indeed, it was the AWAC planes that helped very much in the ability of the Saudi Government to shoot down the Iranian fighters that were threatening their own homeland and potentially, the oil fields on which we all have to rely.

So, yes, I think the past sales have greatly improved the security and the safety of the region and have helped to deter attacks from the Soviet Union.

Senator **Andrews**. Have the Saudis lived up to the terms of the Warner-Nunn letter?

Secretary **Weinberger**. I have not seen the Warner-Nunn letter. I do not have it before me. But I do know that there were many conditions imposed on the AWACS sale, and those were specifically negotiated and have indeed been lived up to.

LEVELS OF AID TO ISRAEL WOULD BE SUPPORTED

Senator Andrews Well, Mr. Secretary, the President's budget for the 150 function—that is outside of your area, but it ties in with this——

Secretary **Weinberger**. Yes, yes.

Senator **Andrews** [continuing]. International Affairs—does not include any budget authority or outlay figures for ESF for Israel. It also does not take into account any supplemental aid to Israel. But I understand the President intends the ESF level to be at $1.2 billion and is considering a supplemental of about $1.5 billion over the course of fiscal 1985 and 1986. Now, that is kind of outside, and it is going to be brought in to affect this budget process.

Would you support these levels of aid to Israel?

Secretary **Weinberger**. Whatever the President ultimately decides, I would support, and there has been no decision on economic support. There has been a decision announced last week on military assistance.

Senator **Andrews**. How can these aid levels be supported and accommodated within the President's 150 request?

Secretary **Weinberger**. Well, I am not familiar with all the details of the 150 request, but I think it was made very clear when the budget was sent up that there had not yet been a determination made for the amounts for economic support for Israel. There will be a determination, and that will be transmitted to the Congress, either in the form of a supplemental or a budget amendment.

Senator **Andrews**. One final question, Mr. Secretary. You know the tie-in in the Camp David accords between aid for Egypt and the United States. We understand, again, and you ask how do we hear this—there are four tables of people who write, and they contact people—right behind you—they contact people all over the administration. We get this information from the newspapers, and all we can do is run it by you so we can make accurate judgments of what we are asked to do.

Secretary **Weinberger**. Yes.

Chairman **Domenici**. But your time ran out.

ATTEMPT MADE TO PROVIDE EQUAL ASSISTANCE

Senator **Andrews**. I know. But I understand—I have one question, Mr. Chairman, and it is a quick one. It has to do with this tie-in with Egypt and the United States. We understand the administration now has told a House committee that the Camp David accords do not call for equivalent aid to Egypt, and that the United States does not feel obligated to provide equal increases to Israel and Egypt.

Is this a correct statement of the administration position?

Secretary **Weinberger**. I am not familiar with that statement, nor who made it, Senator. I know we have——

Senator **Andrews**. Assistant Secretary of State Richard Murphy made it, Mr. Secretary.

Secretary **Weinberger**. We generally tried to—there are varying interpretations of Camp David—but regardless of whether those accords at Camp David actually require it or not, we have tried to be relatively close in adding both economic and military assistance to those two countries. I think there have been years when we have not been precisely equal.

What the plan is on the economic assistance has not yet been determined, so I have no authority to try to guess at it or communicate to you a guess. But we have tried to maintain a rough parity between those two countries. I do know from my own experience that there have been some years when that has not been achieved.

Senator **Andrews**. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, Senator Andrews.

Senator Johnston.

NO ADD-ONS TO B-1 PROGRAM

Senator **Johnston**. Thank you, Mr. Chairman.

First, Mr. Secretary, I am reliably informed that many of the B-1 contractors are laying contingency plans for a follow-on set of B-1 bombers. If this is so, would you advise them to do that or not to do that?

Secretary WEINBERGER. No. I think they're making a terrible mistake if they do that, Senator, because we have no desire nor any plan to ask for any more than the B-1 program which is in this year's budget which completes the program as far as we're concerned.

If there are any add-ons, it would have to be at the direction of the Congress, and we would oppose it.

Senator JOHNSTON. Thank you. That is properly unequivocal. Now, second, Mr. Secretary, the other day Mr. Stockman was here and sort of dumped on what he called the lavish, extravagant retirement system for the military.

You and others took great umbrage at that statement talking about the patriotism, commitment, the danger of military service. And I think you have a point, and I certainly concur with those who affirm the commitment and patriotism of our uniformed services pensonnel.

On the other hand, there's another group of people who I think are also very important to our arsenal of democracy who frequently do not get the praise. You brought a number of them with you today and those are our civilian Civil Service employees.

When there is a tough job to be done and today is the toughest job of all for the military, you brought your civilian employees with you. Do you not think they are very vitally important to our military mission?

Secretary WEINBERGER. Well, all of us civilians think we are important to the Government. Yes, sir, we do. We would not be here——

Senator JOHNSTON. Well, that is what I wanted to know.

Secretary WEINBERGER. If you are asking about the 5 percent pay cut——

DOD EMPLOYEES INCREASE BY 101,000 SINCE 1980

Senator JOHNSTON. Let me phrase my question, if I may. They are so important indeed that we have had a 101,000 increase in civilian employees since 1980.

Chairman DOMENICI. That's in the Defense Department, Senator.

Senator JOHNSTON. In the Defense Department, that is right. I think there are altogether over 1 million civilian employees.

Secretary WEINBERGER. We have had an increase in the Defense Department because our responsibilities and obligations have increased. I think other departments have gone down as some of those budgets were leveled off or reduced.

Senator JOHNSTON. Right. Well, I mean the point is they are so vital that you bring them with you today, that they are increasing in number, that you have over a million of them. And if that is so, how can they be so savaged with a 5-percent pay cut, with a retirement change that says they get only 55 percent COLA above $10,000, that their benefits are reduced by 5 percent for each year under age 65, 5 percent each year under age 65 when military people can retire at age 42 and get COLA's forever.

NO SYMMETRY FOR CIVIL SERVICE EMPLOYEES

How is there any equity, any balance, any symmetry to treat our Civil Service employees like that?

Secretary **Weinberger**. Senator, in attempts to get hold of budget deficits there frequently cannot be equity. The civilians who are here, as well as the military are all here with me on a volunteer basis today.

Senator **Johnston**. So are those in uniforms.

Secretary **Weinberger**. We're all delighted to be here.

Senator **Johnston**. And I am not dumping on the uniformed services, I want you to know that. I just do not think there is any symmetry.

Secretary **Weinberger**. Well, sir, I do not think there is symmetry and I do not think there is anybody who is more unhappy about it than the President. Certainly I am not happy about it at all. It is a very unhappy thing to have to request that people who have worked hard, effectively, and skillfully not only not get a pay increase but get a pay decrease.

It is, however, a way in which we can try to deal with some of the deficit problems. Nobody is happy about it. As far as the difference between civilian and military is concerned, I think that is very obvious. But the military do have a number of things that differentiate their service. They lose a lot of their personal freedom. They have to go to very difficult areas of the world. They have long separations from their family.

Senator **Johnston**. I know all that, but is it right to require the civilians to serve—well, if they came in at the same age—let us say at age 22—a civilian employee would have to serve—what is that—43 years to get a full retirement while a uniform person would only have to serve 20 years to get a full retirement.

Secretary **Weinberger**. Yes; but, Senator, you have to bear in mind that the retirement systems are different. The retirement COLA's have gone down the last 4 years, and the present budget before you calls for none at all.

In fact, the value of the military retired pay, considering all recent changes, has been eroded by 15 to 20 percent.

Senator **Johnston**. Well, I wish somebody would stand up for the Civil Service employees.

Secretary **Weinberger**. I do stand up for them and we are certainly unhappy that there is this request, but if this request were not before you the deficit problem would be several billion dollars worse. It is just one of the inevitable concomitants of trying to reduce total expenditures, that you get some good things as well as some bad.

Chairman **Domenici**. Senator Symms.

Senator **Symms**. Thank you, Mr. Chairman.

Mr. Weinberger, I have one question that I think is quite pertinent. How many U.S. civilians were in the Beirut barrack, when the bombing that killed the marines occurred?

Secretary **Weinberger**. Well, in the actual barracks I guess none.

Senator **Symms**. I guess that argues for the necessity of differentiating between military and civilian personnel.

MORALE OF MILITARY FORCES HIGH

Mr. Secretary, I want to compliment you on the job you have done representing the President in the Cabinet and in the Defense Department. I think the defense is better than you in the Pentagon think it is. There's an old saying in politics that the perception becomes the truth.

And I think we have a strong leader, in the current Commander in Chief, and dedicated and professional officers and troops. I have had the privilege of visiting many military installations and I have never seen higher morale in the U.S. military forces than exists there today. General Vessey, you would pretty much concur with that, would you not?

General **Vessey**. I would.

Senator **Symms**. I am trying to look at this budget and with respect to the fiscal crisis that I see the country in. I am willing to take all the votes that the chairman and the majority leader have asked us to.

I am even willing to throw out programs that are really very dear to the State I come from where we have two-thirds of the State owned by the Federal Government. We do not have a big tax base. Some of these proposals, like cutting revenue sharing, are very, very difficult votes to cast.

Having said that, I look at the overall situation and I still see it as a question of willpower being more important than hardware. Are there some things that the Congress can cut that will not really weaken our defenses? And if there are I hope that you will help us pick out the right ones to cut out.

BIG INCREASES IN THE GUARD AND RESERVES

It is much talked about that we should use the National Guard and Reserves more and have lower numbers of people in the active forces. Is that a possibility?

Secretary **Weinberger**. We do that, Senator. It is a possibility and we do do it. We do it now to the point where most of the active units run around 90 percent of full strength rather than 100. We do fill them out and do a lot of the additional training using designated Guard and Reserve battalions, brigades, divisions, and so on, to fill out those units.

That is a good suggestion and we do do it. That is why we try to get the best equipment to the Guard and Reserve units.

General Vessey and I have talked about it. We believe the current ratio is the proper one given the state of readiness that we feel we have to maintain.

General, do you want to comment?

General **Vessey**. I tried to point out in my brief additions to the Secretary's statement that, when you talk about increases in the overall force, that is where it has come in recent years by additions to the Guard and Reserve. There have been some additions to the regular Navy to meet the needs of the additions of the ships and some specific additions in the regular Air Force that have added to force structure, but the great additions to the force have come in the Guard and Reserve. You are going to have 18 active Army divisions, but six of those Army divisions have significant parts in the Guard and Reserve. In addition to bringing up the Guard and Reserve military airlift capability——

MANPOWER PROGRAMS HAVE PROVIDED BEST PEACETIME FORCE

Senator SYMMS. How is our manpower going to be for the infantry type, artillery type, combat force type, Reserve and Guard units without some sort of a Selective Service in the future as the manpower pool decreases on the civilian side?

General VESSEY. Let me finish the other question because there are some important points that the committee needs to understand. For example, 30 percent of the peacetime military airlift is provided by the Guard and Reserve. Over 50 percent of the wartime military airlift would be provided by the Guard and Reserve. And that is just an example of the extraordinary use that we are making of the Guard and Reserve today.

The last question, "How is manpower going to be provided?" Peacetime manpower I think we have shown in recent years can be provided any way that the people of the United States want to provide it. If they want to provide it with a draft, they will get it with a draft; if they want to provide it with a volunteer force, they will get it with a volunteer force.

We think that it is unlikely that we would be able to mobilize without having a draft in wartime and that is why the standby provisions for it have been there. But we have had sensible manpower programs and we have provided the best peacetime force we have seen certainly in the 46 years I have been wearing this uniform with the manpower programs we have today.

Chairman DOMENICI. The Senator's time has expired.

Senator SYMMS. Thank you.

Chairman DOMENICI. Senator Hollings.

COUNTRY NEEDS DEMONSTRATION OF WILLPOWER

Senator HOLLINGS. General Vessey, why did General Rogers ask for the draft?

General VESSEY. I do not know. I will have to check.

Senator HOLLINGS. Since you do not know I will tell you. I have talked to every commanding general over there. They favor the draft. And to come now and say that you do not know—he has been asking for the draft for years—your NATO commander, Secretary Weinberger. He has been asking for the draft for years. He knows we are 50,000 short in the selected Reserve; that we are 200,000 shy in the Individual Ready Reserve. And when you look at our Delayed Entry Program [DEP] you can see the numbers are falling off. Your recruiters have signed 12,500 fewer people into the DEP in the last year over the previous year's totals. The Army is off 19 percent, the Navy 16 percent, the Marines 12 percent. You know and I know that it would be desirable that—Senator Symms was right on target—more than a demonstration of military power, this country needs a demonstration of willpower. A sign of willpower is the draft. That would give a signal to the Soviets better than all of your MX's and B-1's and defense initiatives—a signal that this country was together.

Now, I happen to believe that the draft is desirable. For a free society to depend upon its defenses from the least free in the society is a dangerous contradiction. You know it and I know that.

So on a matter of equity and civil rights, the worst civil wrong we have is the Volunteer Army.

But let me straighten this other thing out with respect to the military because I am on your side on that particular one.

Mr. Stockman comes up—and I regret I was not present—the chairman said he made a very forceful presentation. The truth is he did make a forceful presentation but he hit the wrong target; the target should be the Congress. We are the ones that made this Volunteer Army—that set out all these fine recruitment promises. We spent $1 billion last year, General Vessey, to bring them in.

And we do not tell them about patriotism and pride in protecting and serving this country. We tell them that, look, you have 20 years; 13 years you are going to spend in school. You can enhance your capabilities. You can travel the world. You can get where the action is. You have seen the TV ads.

And the average retiree is 42, with a life expectancy of 74 in this country. The ultimate cost for retirement will be far more.

Now, that is congressional policy, not the military and the Pentagon's policy; we set that policy. And so when Stockman comes and says it is between the security of the country and their pensions, they would opt first for the pensions; I would say between the security of his President and the economic security, he would opt for the political security of his President.

He does not come up here with anything on revenues. He does not come in here with anything with respect to entitlements and Social Security.

CONTRACT WILL HAVE TO BE CHANGED

So I wish I had been here to take him on because we are the ones that set the policy and while we are not getting all the quality personnel in the Pentagon, they at least know what their contract is. And I am not for changing that contract for those that are in. But now as a matter of necessity, Mr. Secretary, we are going to have to change the contract from here on out.

By 1993 every other one of age 19 will have to volunteer and you and I both know that will not occur. You know the demographic projections. You know why General Rogers and others are asking for the draft. We are coming down the road to where pensions will double in the next 10 years. It is 18 billion now. It will be over 30 billion by 1995. We cannot afford it and you can see what is happening with the Senators and the military and the people just generally speaking. They are blaming the military for the political policy, which is wrong, wrong, wrong.

We are the ones that ought to induce them to try to hold those numbers up. But as this great economic booming recovery comes, it goes down, down, down. You are off in your Reserves. You are off in the Delayed Entry Program, which is the first signal that we get in how well we are recruiting. General Vessey knows that. The Secretary knows that. And it is not working and that is one big reason why General Rogers wants a draft and most of the commanding generals in the Pentagon would vote right now for the draft if they were in the U.S. Congress.

Now, I would like to hear your comments, Secretary Weinberger, because we are the ones that are setting the policy. You have given us a different signal. You are saying everything is fine. We are just up, up and away personnel-wise when we are not. And we are falling off, and if we cannot have an economic recovery and resolve this budget deficit, then they will really fall off. We are getting a highly sophisticated weaponry and technological defense and we are not getting quality personnel in to handle that kind of defense.

Secretary **WEINBERGER**. Senator, you have said a certain number of things with which I agree and a great many things with which I disagree. I disagree very strongly on the need for a draft and I disagree even more strongly on having a draft and the effect of that.

I saw the draft pull this country apart and the fabric of it apart in peacetime.

Senator **HOLLINGS**. Let me say right now I do not mean a draft that would pull the country apart. We corrected that at the very end of the war in Vietnam. You and I both know that during that war if you had cash, you were either in college or in Canada. I am not talking about that kind of draft and I do not allude to that in the bill I am introducing. I have had one for the last three Congresses. I will put one in again today.

APPLICATIONS FOR WAITING LIST TAPERING OFF

Secretary **WEINBERGER**. The other thing is the necessity for it. What is tapering off are the applications for the waiting list and that is not tapering off terribly seriously now.

Senator **HOLLINGS**. Terribly seriously and a minute ago you said they were standing in line.

Secretary **WEINBERGER**. They are. The delayed enlistment pool represents almost 40 percent of the next 12 months' accession requirement. We are experiencing a more difficult recruiting environment as a result of the improving economy but are confident, with the additional resources we have asked for, we can effectively respond to these more difficult market conditions. We obviously have to do as you are doing and looking into the future. But right now we have an exceptionally bright picture on the entire volunteer system. We certainly watch it very closely and adjust as necessary to changing market conditions. If the waiting list falls down to zero and we cannot meet quotas, we would have a much more serious situation.

We do not have that now. We have a situation in which we quite literally have people on waiting lists who try to wait because the quotas have been more than met in each of the services with very good people, 93 percent high school diploma graduates, and people who—more than 60 percent—say they want to stay in after one term.

DRAFT WOULD BE OPPOSED

Senator, I am going to be very frank with you: I would fight just as hard as I can to oppose a draft just as long as we can. I have not heard very many of the commanders in chief who tell me they want a draft. They are very happy with the quality of the people they are getting.

Now, they may be looking down the line 10 or 12 years as they are indeed required to do, and they may worry about the size of the demographic pool, as we all do. But certainly what we have now, as the President says, are people who want to be there, and they are doing an excellent job.

Senator HOLLINGS. My time is about up. But you are talking to those commanders in your office. You ought to talk to them in the officer's clubs and in the field. That is where I talk to them.

Secretary WEINBERGER. Well, I do not get there very often.

Senator HOLLINGS. Yes. Where the action is.

Secretary WEINBERGER. I do not get there very often.

Senator HOLLINGS. They will tell you. Yes, sir, do not tell me they are not for it.

Chairman DOMENICI. The Senator's time has expired.

Secretary WEINBERGER. We may want to put in a little additional information, Senator, because the time is up, but both General Vessey and I, I think, would like to put in a little additional information about the volunteer system and what we see in the future.

Senator HOLLINGS. I would appreciate it.

[The following was subsequently supplied for the record:]

Secretary Weinberger. We do not agree with your criticism of the volunteer force and see no reason to return to conscription. While the volunteer concept experienced problems in the late 1970s, let's not forget the genesis of those problems--pay caps in 1975, 1978 and 1979 which allowed military pay to fall far behind private sector pay, reductions in enlistment and reenlistment bonuses, elimination of the G. I. Bill benefits, and decreases in recruiting manpower and resources. These actions led to recruiting shortfalls and an exodus of talent from the Services. It has taken us four years to recover from that drastic situation. Once we overcame these problems, the volunteer force became an unqualified success. The quality of our new recruits has improved each year. In fact, the quality of our enlisted accessions has been better the last three years than at any time under the draft. Improved retention is increasing the overall capability of the career force. There is simply no evidence that conscription would produce a higher quality force.

While we have seen a recent decline in the size of our Delayed Enlistment Pool (DEP), it is the natural by-product of an improving economy, reduced youth unemployment and more intense competition for available manpower. We must now provide additional recruiting resources which will enable the Services to respond effectively to this changing recruiting environment. The decline in the DEP signals that more difficult recruiting times are ahead, but it does not justify a return to the draft.

The demographic projections you mention, while of concern, do not represent an overwhelming problem. The Services recruit primarily from the 18-24 year-old population which has been declining since 1981 and which will continue to decline until 1996 when it begins to increase again. Keep in mind however, that DoD's manpower requirement in relationship to the 18-24 year-old population is relatively small. Even after the size of the available market reaches its low point, the Services will still require a smaller percentage of the available youth population than in 1974, which was a very successful recruiting year. You cited the figure 1 of every 2 must enlist--in reality the figure is about 1 of every 20. This is not to say that the shrinking pool of military age youth will not make recruiting more difficult. It will, but it alone will not require a return to conscription.

Under the volunteer concept, unprecedented progress is being made in the direction of a more professional, experienced and effective military force. It is being accomplished by reducing turnover, increasing quality, and minimizing personnel overhead. All of the current favorable trends would be undone by scuttling the volunteer concept in favor of the draft. We have worked hard to restore a sense of dignity and honor to service in the military. With the continued support of the Congress and the American people there is no reason why this nation's military manpower requirements cannot be satisfied with volunteers.

ALL VOLUNTEER CONCEPT

General Vessey: As I pointed out earlier to Senator Syms, this Nation will have to decide what kind of military force it wants, needs and is willing to maintain. For over a decade now, we have had a volunteer Active and Reserve Component force. The system is working very well but we have seen what can happen to the personnel picture in terms of quality, morale, and retention if we do not provide adequate pay and compensation for the extraordinary demands of military service. Today, we are recruiting and keeping in the Service the required numbers of very good men and women.

Senator Hollings said that some of our commanders in the field may favor a return to some form of a draft. In time of war, we will need a draft to be able to sustain our mobilization. Certainly, as the manpower pool situation changes over the coming years, we may want to reexamine with the Congress the volunteer concept and any necessary changes to the current system -- Active, Guard and Reserve. However, I do not see a need for that now. And, as long as the Congress and the American people support the volunteer concept, we will be able to meet the manpower requirements necessary for our national defense.

Senator **Hollings**. Mr. Chairman, I would also appreciate that other questions that I will send Secretary Weinberger be included in the record with his response.[1]

Chairman **Domenici**. The Senator's questions will be submitted and you can answer as soon as you can. Senator Kasten had three and I will submit them for the record for your answer, Mr. Secretary.[2]

Senator Danforth.

BUDGET FAT-FREE

Senator **Danforth**. Mr. Secretary, your budget, which you said has taken a long process to work through the administration, $313.7 billion budget authority and $277.5 billion in outlays. Is this an absolutely fat-free budget?

Secretary **Weinberger**. Senator, we obviously like to think so. We have worked out $36 billion of it over the course of the year's preparation. We started last week on the preparation of the 1987 budget and we have a process which is the same one basically that I used when I was at OMB. We get the requests in from the services, make substantial reductions in those requests over the period of a year, and then, as we did with the fiscal year 1986 budget, require another $11 billion to come out in the last 2 weeks.

We hope and believe that we have eliminated any fat. We certainly continue to work at it. We have changed contracts. We have, as I mentioned, conducted a very large audit, all designed to try to tell us wherever we can find anything that we can cut. The Joint Chiefs have a very good program of trying to ensure that the services do not have duplicative or overlapping programs. There are all kinds of instances I can cite to you.

Senator **Danforth**. Don't you think, though, Mr. Secretary——

Secretary **Weinberger**. I am also certain, Senator, that there will be a few more instances of overpricing attempts which we will resist and if they have been paid, we will get refunds.

Senator **Danforth**. Would it not be reasonable for us to assume that when you have something as large as a $313 billion budget and something as large as a 5.9-percent increase and then these little symptoms—and, granted, they are small, but the Allen wrench and the coffee machine on the airplane and the toilet seat episode, and so on—I mean, would it not be reasonable for us to assume that some fraction of $313 billion is in fact fat?

Secretary **Weinberger**. Well, Senator, again, as I say, we simply can tell you that we have made major efforts and are continuing to make them. All of the episodes you cited, all these little things that are so damaging to the Department and are so basically wrong, for every one of those we received refunds. For every one of them we are not paying those prices.

We found all of those ourselves and we are continuing to look for them.

Senator **Danforth**. Yes. But, I mean, our role on this committee, as I understand it, is to come up with overall figures, not to argue about each specific program, and it would seem to me that when we have a large problem with the Federal deficit we are going to ask the Defense Department to make some further effort. When you have figures of this size in the defense budget, clearly there has to be at least some fraction of what could be called fat.

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[1] See p. 168.

[2] See p. 189.

Secretary **Weinberger**. We hope not. We have tried to eliminate it. We continue to try to eliminate it. And we eagerly seek your suggestions as to any that you feel may be there.

REWARDS GIVEN FOR IDENTIFYING WASTE

Senator **Danforth**. I do have a suggestion. You mentioned in your testimony the sergeant who received $1,100 for finding the plastic cap.

Secretary **Weinberger**. Yes, we did indeed.

Senator **Danforth**. Do you have a kind of a bounty system in the Defense Department for finding ways——

Secretary **Weinberger**. Senator, when you sign 55,000 contracts every single day of the year you try your best to have some kind of an incentive system that encourages, bounty, or anything else that you want to call it.

Senator **Danforth**. I think that is a great idea.

Secretary **Weinberger**. We also have an overall Government program, as you know, a system of rewards for good performance and excellent performance. And we certainly are going to encourage people in every way we can to look for these things.

Senator **Danforth**. I imagine if you put the word out to all the people who are in the service—what is it, 2.9 million or something?

Secretary **Weinberger**. Yes.

Senator **Danforth**. If you were to put the word out to 2.9 million people that we have a reward system for identifying waste and finding things that we are spending money for that we really should not be spending money for, you would get a lot of excellent suggestions.

Secretary **Weinberger**. We do have that out, and when we make the awards, we do them in a very public way with great pride, because this is the kind of thing we are hunting for. And I am sure that the civil service regulations could be amended to include members of Congress who come up with suggestions of that kind. We are delighted about them wherever we can find them.

Senator **Danforth**. I am glad I am on the committee. Let me ask you this, Mr. Secretary, before my time runs out: you mentioned several times termination costs.

Secretary **Weinberger**. Yes.

CONTRACTS HAVE LIQUIDATED DAMAGE PROVISIONS

Senator **Danforth**. I have this concept in my mind when I have talked with you and other people who are in the Defense Department that once we have reached contracts, once we grant budget authority for this and that, we are in a kind of inexorable process and that there is no pulling back at all without incurring tremendous costs in pulling back.

Is that really the case? Is this a liquidated damage provision that is in all contracts?

Secretary **Weinberger**. They are in most of the contracts. As a matter of fact, the Congress substantially increased the liquidated damage penalty at the end, on termination prior to completion as a means of trying to encourage more people to bid so that we would get competition.

There is a big cost, but it is always possible to do it as we did with the supersonic transport. We sunk $1 billion in that, and that was the end of it. There is nothing left but some plans.

Senator **Danforth**. Don't you think, Mr. Secretary, that there is such an understanding in the country—and I have heard this from defense contractors who say to me that they are very concerned about the deficit in the Federal budget. Don't you think there's the possibility that if you were to go to defense contractors and were to say to them, "Look, we have a national emergency on our hands, and we are going to have to cut back and we have agreed to do this, and the one thing we would like to try to work out with you is a renegotiation of the contract so we would not have termination costs," don't you think that they are really patriotic enough to want to make some adjustment so that they are not just milking us for everything they can get?

Secretary **Weinberger**. No. [Laughter.]

But we have a difficult time sometimes in trying to get the refunds for these outrageous prices on small parts. We are not legally entitled to get them. If you are talking about $500, $600, $800 million, you cannot get a company to do that to its stockholders. I am not challenging their patriotism or anything of that kind, but the simple fact is, that is why the termination penalties are there. They build up very large investments to get started, and if we cut out a program, which we certainly can do—we cannot spend a thing that Congress does not authorize; if you tell us to do it, we will do it. But to stop some of these programs in midstream will cost $400, $500, $700 million.

PROGRAMS WOULD HAVE SUBSTANTIAL TERMINATION COSTS

Senator **Danforth**. Well, Mr. Secretary, this is the first time, I think, since I have been in the Senate that I have been on a committee before which you have testified. You have this reputation of being just a very tough customer, a very hard bargainer, and tough in bargaining with this committee, and tough in bargaining with the President. I bet that you are tough enough that if we decided to really phaseout some of these programs, stretch them cut somehow, make adjustments, that if you went to defense contractors and said, "Mr. Defense Contractor, can we work something out so that we are not stock with the full contractual obligation—and we hope to be dealing with you in the future, Mr. Contractor," I bet you that you could do it.

Secretary **Weinberger**. Well, Senator, we have stretched out a lot of things, and those things, inevitably, cost you more money because the unit cost goes up, and you have to pay whatever the inflation addition alone is in later years.

But on these large programs, you would have substantial termination costs no matter how much or how carefully you negotiated or renegotiated, because the companies simply cannot give away, which is what it would be involved in, sums of that kind. We have enough trouble, as I say, with the refunds for some of the outrageous prices that resulted from some of the spare parts.

On reputation, sir, I would just suggest, most respectfully, not to believe everything you read.

Chairman **DOMENICI**. Senator Exon?

Senator **EXON**. Mr. Chairman, I do not believe I have any basic questions. We had the Secretary and the General in the Armed Services Committee late last week, and I think I basically covered everything there. So I have no questions at this time.

Chairman **DOMENICI**. Senator Metzenbaum?

REDUCTIONS CAME FROM DOD ESTIMATES

Senator **METZENBAUM**. Mr. Secretary, I must confess I have some difficulty with the presentation that the President made last night when he said in his speech that we have reduced defense spending $100 billion over the last 4 years from the planned amount.

Secretary **WEINBERGER**. That is correct.

Senator **METZENBAUM**. Well, now, let us face it. The planned amount was your planning. That is like negotiating with yourself. And I have never heard of anybody talking about reducing something when they say—it is like going in in a personal injury case and saying to somebody in the insurance company that you want $100,000, and then telling them how great you are because you would be willing to take $50,000, which is $25,000 more than you were entitled to in the first instance.

You have done the same thing here this morning. You said how much we reduced the defense spending, and you had it on your chart, over the rose garden agreement. But who was a party to the rose garden agreement? As I understand it, it was only members of the President's party, and no one else. You then went on and you had another chart. You said we have reduced it from the January 1984 estimate. Mr. Secretary, I respect your desire and the President's desire to get all the money in the world for defense spending, but I do think there is such a thing as being misleading, as I think the President was last night, and in all fairness, I think that you have out really given us reductions, as such. You have given us only reductions from that which you had agreed to, or that you wanted in the first instance. Isn't that pretty accurate?

Secretary **WEINBERGER**. Senator, I suggest respectfully to you that it is much harder to reduce your own estimate in planning than it is somebody else's. These are estimates we made at the time we first came in, and then revised estimates as recently as 6 months ago. They are estimates that we felt were needed at that time, and we made reductions from them. Obviously, they are reductions from our own estimates, because we are the ones who have been here, yes.

Senator **METZENBAUM**. Well——

Secretary **WEINBERGER**. But I do not think there is anything misleading about that, and I think it is proper to tell you that.

CONGRESS TO CONTINUE DEFENSE SPENDING AT PRESENT LEVEL

Senator **Metzenbaum**. Well, Mr. Secretary, I think that is part of the problem that you have in the country at this moment. I think it is a credibility problem—and it is not just here in the Senate, and it is not just in the House, but it is among the people of the United States. You said back in 1981, "We can do this because the American people are prepared for the first time in two decades to make major increases in the resources available for defense." And you were 100 percent right, because in 1980, 71 percent of Americans, according to a Harris survey, wanted defense increases. But 4 years later, and $1 trillion later, the American people are saying something different, because the Harris poll in January says that support for increased defense spending is down to 9 percent from 71 percent. That is the lowest it has been in 14 years, and——

Secretary **Weinberger**. But Senator, what is the figure for people who want to continue it at the present level? If you add that with the people who want to increase it, it is about 60 percent.

Senator **Metzenbaum**. Mr. Secretary, if you will tell us and the Congress that you are prepared to accept continuing it at the present level, I do not think you are going to have any problem at all, because I do not know of a Member of Congress that wants to cut defense spending. We are all prepared to continue it at the present level, but you are talking about substantial increases, $30 billion next year.

Secretary **Weinberger**. Senator, the way that was put in the poll, it is the level that the President that has proposed that the people are willing to continue.

You say we have a credibility problem in the country, I would have to just respectfully disagree with you by 59 percent to something like 38 percent.

Senator **Metzenbaum**. Well, let me tell you another figure. You claim it is the Russian threat and their superiority that dictates the budget increase; 57 to 30 percent of Americans reject that claim.

You say you brought cost overruns under control; 84 to 11 percent do not believe that.

You say you have come to grips with fraud, waste and abuse; 89 to 8 percent of the American people believe there is still too much waste in defense spending.

Now, Mr. Secretary, we are Members of Congress. We get elected by the people. We are sent here ostensibly to represent them. And frankly, you made out a good case in 1981, but your case is not selling nearly as well these days. And I think that if you understand that, that maybe there is a chance that Congress and you can come to grips with this issue and come up with the right answers.

Secretary **Weinberger**. We want to do that, Senator, but I am here representing a President who was reelected by 59 percent of the people and who carried 49 States out of 50, a President who never hesitated for one moment to campaign on the ground that a 3-percent increase proposed by his opponent was totally insufficient, and that it was necessary to keep on doing what we are doing, that there was and is a major threat to this country from the Soviet Union.

NO TAXES PAID ON $7.5 BILLION

Senator **Metzenbaum**. Let me just take one last point. You made the point that the cost of defense spending is not that bad, because we get about 50 percent of it back. And you say if you did not have that defense spending, you lose the taxes—and you have nodded your head in agreement.

Let me point out to you that if you added up the profits for the last 3 years of Boeing, General Dynamics, Grumman Corp., Lockheed Corp., Martin Marietta, Northrup Corp., Rockwell International, and TRW, you would find that they made in the last 3 years $7.5 billion. And as far as their paying 50 percent taxes, let me point out to you that they did not pay 50, they did not pay 40, they did not pay 20, they did not pay 10, they did not pay zero. That group got $108 million back from the Federal Government for the $7.5 billion in profits they made. So we are not getting back 50 cents on the dollar.

Secretary **Weinberger**. That is one of the reasons the President wants major reform in the tax structure or the statutes under which these companies operate.

Senator **Metzenbaum**. We have not seen his proposal, but I am certain that there will be nothing in that proposal that will indicate that corporations will be paying 50 percent of their taxes.

Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, Senator.

Senator Grassley?

Senator **Grassley**. Thank you, Mr. Chairman.

Mr. Chairman, I have a paper I would like inserted in the record at this point to begin with.

Chairman **Domenici**. Without objection.

[The following was supplied for the record:]

SHOULD WE EXEMPT DEFENSE FROM ECONOMIC REALITY?

THE NEED FOR A DEFENSE BUDGET FREEZE

A recommendation to the Senate and House Budget Committees
and Republican Leadership

Congressman Denny Smith	Senator Charles E. Grassley
Congressman Tom Tauke	Senator Nancy Landon Kassebaum

FEBRUARY 7, 1985

INTRODUCTION

This resolution reflects the committee's judgement that reduction in the Federal budget deficit is our nation's top priority and that such a reduction will enhance national security. It is also the committee's judgement that management improvements and the elimination of excessive expenditures are prerequisites for a strong national defense and that action should be taken in these areas before budget authority is increased further. Finally, it is the committee's judgement that an across-the-board budget freeze is the only fair and workable approach to restoring integrity and realism to the government budget process.

This resolution freezes growth in budget authority for National Defense at Fiscal Year 1985 current dollar levels. Furthermore, the resolution intends that this freeze apply separately and equally to each of the DOD individual appropriation categories (i.e. -- procurement, military personnel, RDT&E, O&M, military construction, etc.). This freeze also assumes the across-the-board civil service pay freeze.

The following discussion describes the rationale underpinning these judgements.

SHOULD WE EXEMPT DEFENSE FROM ECONOMIC REALITY?

For the last several years, the national debt has been growing faster than the gross national product. This growth, which is the direct consequence of the unprecedented budget deficits, places an increasingly unfair burden on future generations. Moreover, since the deficit diverts scarce capital from productive employment in the private sector, since it hurts our international competitiveness, and since it makes our government more dependent on foreign funds for public finance, the deficit threatens to hinder long-term economic growth. In this case, our capacity to reduce the growth in the national debt would be financed by a reduction in our standard of living. Thus, the deficit is a growing threat to the security and well-being of our people. The committee, therefore believes that reduction in the deficit will contribute more to national security than any other single action.

Proponents of continuing defense budget increases assert that the peacetime budget should be exempt from the Federal budget freeze because defense budget requirements are solely determined by outside influences that are beyond our control. The committee holds that this argument is untenable for the following three reasons:

(1) This assertion falsely assumes that we have a perfect perception of those outside influences. In fact, such perceptions are highly uncertain and therefore they are naturally influenced by our internal biases and beliefs. Defense judgements are not objective absolutes; they are subjective judgements made in the presence of the greatest uncertainty. If we treat such uncertain judgements as absolute requirements, we run the risk of generating an unconstrained wish list which, in effect, cannot be questioned. The failure of either Congress or the Administration to come up with a definitive list of defense priorities suggests that we are falling into this trap.

(2) A nation's peacetime defense expenditures are analogous to an individual's insurance policy that hedges against an uncertain future adversity. A nation, like an individual, diverts resources from current investment or consumption to pay for this protection. No rational individual would deliberately bankrupt himself to make such a payment. Yet, the logical implication of the assertion is that the risk of national bankruptcy should not constrain defense decisions. Given the deficit problem, the committee is unwilling to accept a further magnification of the risk. Ultimately, a strong defense must be based upon a sound economy.

(3) If we truly believed the assertion, then financing the defense budget would not be the political issue that it has become. In fact, both Congress and the Administration have been unwilling to finance the growth in the defense budget by taking such actions as raising taxes or identifying offsets in the rest of the budget. This is evidence that, fundamentally, we don't believe the assertion. Furthermore, if we continue to avoid this issue, we will convey to the American public the dangerously misleading message that the defense build-up is free.

THE DEFENSE FREEZE IN PERSPECTIVE

The committee believes that a budget freeze would be beneficial to the defense program. Over the last four years, the defense budget has grown from $211 billion in FY82 to $293 billion in FY85, 39 percent growth in current dollars and 22 percent in constant dollars. This growth is unprecedented in the post WWII era; and as the following table shows, the last four appropriations exceed the four largest years of the Korean and Vietnam wars. More importantly, the table shows that the cummulative effect of a hypothetical four-year freeze at today's levels would exceed the cummulative expenditures of the last four years by 10 percent in constant dollars. In short, the budget is frozen at a very high level.

TABLE 1.

Cummulative Appropriations Over Four Years

(Constant 1985 dollars in billions)

	Korea FY51-54	Viet Nam FY66-69	FY82-85	Hypothetical 4-year freeze
Cummulative DOD TOA	940	982	1064	1172

IF MONEY HASN'T SOLVED THE DEFENSE PROBLEM, WHAT WILL?

The stated aim of the growth in the defense budget has been to enlarge, modernize, and improve the readiness of our forces. However, when the committee compared the output derived from the recent budget growth to the output of previous periods, the committee found that, notwithstanding the unprecedented budget increases, force structure changes have been minimal; in many cases fewer quantities have been procured at higher costs, and readiness improvements have been marginal. In short, it appears that increases in output have not been proportional to the increased input and this problem has been growing since the Korean War. Given the disappointing returns from the unprecedented budget growth of the last four years, the committee believes that fundamentally improved management will yield substantially greater returns than budget increases. It is therefore the committee's judgement that future budget increases from the frozen level should be contingent upon the implementation of concrete management improvements aimed at producing more realistic budget plans, reducing today's excessive costs, significantly increasing readiness, and procuring larger quantities of demonstrably effective, reasonably-priced weapons.

Specifically, there are a number of basic management actions that are recommended to implement the freeze while helping to increase the size and effectiveness of the forces; these specifics are discussed at the end of each of the next two sections.

HAS MORE MONEY SOLVED THE PROCUREMENT PROBLEM?

This input versus output problem is illustrated by the case of aircraft procurement. Taken together, the Air Force and Navy aircraft procurement budgets amount to about 36 percent of the total DOD procurement budget between FY82 and FY85. As the table below shows, notwithstanding a constant dollar, four-year budget increase of 76 percent over the Carter administration, 12 percent fewer airplanes were procured.

TABLE 2.

Air Force/Navy Aircraft Procurement

	1st Eisenhower FY54-57	Carter FY78-81	Reagan FY82-85	Reagan/Carter % change
TOA (Const. 85 dollars in billions)	84.1	69.9	122	+75
A/C procured (Total)	12,516	2,040	1,799	-11 [illegible]
Strat. bombers	450	-0-	52	N/A
Ftr./Attack	7,821	1,778	1,284	-28
Other	4,245	262	463	+77
TOA per A/C (millions of 85 dollars)	6.7	34.3	67.9	+98

The ratio of $TOA per A/C is an average of the procurement dollars necessary to support the procurement of one airplane. This measure includes the new airplane investment costs and the cost of purchasing spare parts and support equipment for the existing force structure. In essence, increases in this measure may result from (1) a change to a more expensive aircraft mix, (2) growth in the cost of producing the same airplane mix, (3) spare parts cost growth, or (4) support equipment cost growth. The increase of 98 percent is due to substantial cost growth in all four categories.

It is important to recognize that the changes occurring over the last four years are part of a long-term historical trend. A comparison with the first four years of the Eisenhower administration (FY54-57) puts these changes and the current state of affairs into a long-term context. In constant dollars, the FY82-85 aircraft procurement exceeds the FY54-57 budget by 45 percent; however, in the recent period we procured one-seventh as many airplanes. Of particular interest is the fact that the FY54-57 budget procured 450 B-52 strategic bombers compared to the FY82-85 purchase of 52 B-1's, only one of which has been delivered. TOA per A/C increased by a staggering 913 percent.

The following tables display similar comparisons for new ship construction and some Army procurements.

TABLE 3.

Navy and Army Procurement

	1st Eisenhower FY54-57	Carter FY78-81	Reagan FY82-85	Reagan/Carter % change
Shipbuilding (new construction)				
TOA (in billions of 85 dollars)	31.4	33.3	49.4	+48
Major Combatants	70	42	35	-17
(Carriers)	(4)	(0)	(2)	N/A
Amphibious	11	1	6	+500
Combat Support	24	11	23	+109
Total	**105**	**52**	**64**	**+23**
Selected Army Procurements				
Total Proc. TOA	22.3			
A/C + Wps/T.V. (Const. 85 dollars in billions)	-?-	16.1	31.3	+94
Helicopters	1,422	499	722	+45
Tanks	5,779	2,395	3,115	+30
APC/IFV	Unknown	1,975	3,155	+60

These tables show that when procurement quantities increase, they increase at a much slower rate than procurement budgets. During the last four years, the Army has been ramping-up the production of its new helicopter, tank, and IFV programs. These programs were just getting started during the Carter administration. However, even in these cases, where increasing production rates should naturally improve efficiency, quantity increases have not kept pace with budget increases. Comparing the FY82-85 budgets tc the FY54-57 budgets, we see that aircraft and weapons/tracked vehicle budgets in FY82-84 exceed the entire Army procurement program in FY54-57 by 41 percent in constant dollars, yet helicopter production decreased by 49 percent and tank production decreased by 46 percent.

One of the main justifications for the increased procurement budgets over the last four years was the argument that the budget increases would finance higher production rates, generate efficiences, and thereby reduce unit costs. This promise has not materialized. The problem is clearly one of cost growth, and since higher budgets are neither generating improved efficiency nor improved quantities, the committee believes that substantive management reforms, aimed at reducing excessive costs and making sounder procurement choices will yield greater returns than increased budgets.

WHERE HAS ALL THE MONEY GONE?

The input/output problem in procurement is reflected in the rising costs paid per weapon unit. The chief components are high levels of overhead and direct labor. Evidence recently gathered by Congress shows we may be spending up to 18 times more for our weapons than defense contractor's own data suggest we should pay for in-house factory work, if their plants were run at normal factory efficiency.

For example, we are paying one major defense company working on an engine for the MX missle for 5,050 direct labor hours when its own factory efficiency data says the same work should take only 370 hours (see Table 4). The translation of this actual-to-standard ratio, 14-to-1, means the factory is operating at 7 percent efficiency (one-fourteenth). Put another way, for in-house work we pay for 14 MX engines, but we receive only one.

TABLE 4.

	FY 83				FY 84
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.
Actual Hours	----	5050	4203	6717	9122
Std. Hours	----	370	320	578	852
Percentage	----	100	100	100	100
Equivalent Units		1.5	1.3	2.4	3.5

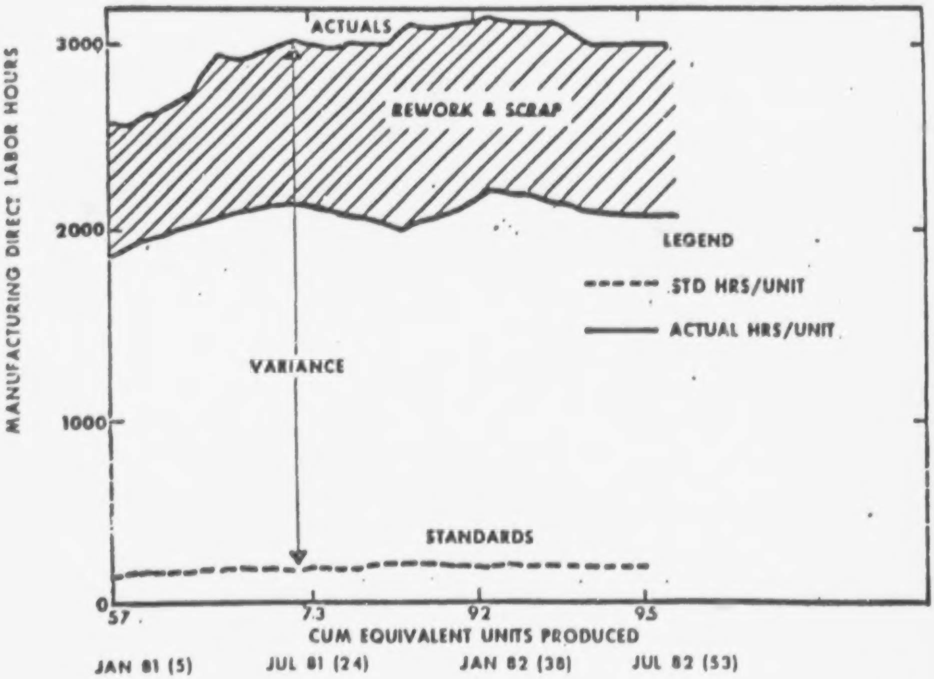
This is by no means a unique example. The chart on the following page shows a similarly large actual-to-standard variance for the IIR Maverick missle. The ratio in this case was 17-to-1, or 6% efficiency at the time of the study. Roughly one-third of the variance, as indicated, is made up of scrap-and-rework.

When all factors in addition to labor are considered, we are paying up to $700 per standard hour for the kind of work normally done in the private sector for between $40 and $60. One typical example is a small metal strap which holds engine wires in place for the KC-135 bought by the Air Force at Witchita, Kansas. The in-plant cost for a purchase of 10 straps was $338.04. The amount of standard time to produce these straps totaled .587 hours. The total cost, then, per standard hour came to $575.87. This price compares with private sector prices of $40 to $60 for the same kind of work. In effect, the Air Force was charged for work equivalent of 100 straps and only received 10.

Recent Congressional testimony shows all spare parts and all major weapons are priced this way. The net variance between the amount we actually pay for our defense versus what we should pay if the defense industry were efficient is staggering. It could well total tens of billions of dollars. The committee is currently conducting a thorough investigation into identifying opportunities for savings in defense contract costs without jeopardizing national security.

CHART 1.

IR MAVERICK
MANUFACTURING DIRECT LABOR HRS/EQUIVALENT UNIT



Specific management actions recommended to begin solving the procurement problem this year while implementing the defense freeze -- actions which may have to be mandated by the Congress -- include:

- o In negotiated contracts (which today constitute the vast majority of all major systems and spare parts procurement), negotiate lower overhead rates to approximately match commerical competitive market practice and negotiate lower direct labor hours to approach standard hour estimates.

- o Implement a major increase in truly competitive, formally advertised procurements for both major systems and spare parts. Currently, DOD purchases less than 5 percent of its total procurement using competitive, formally advertised contracting.

- o Increase production rates and fully fund those major weapons systems that have reasonable costs and have demonstrated significantly improved effectiveness in realistic, thorough operational tests.

- o Cancel procurement of those weapons that have demonstrated their ineffectiveness in operational test;

use at least some of the savings to fully fund the worthwhile weapons referred to above.

- Fence funds and freeze or cut back production rates for weapons whose operational tests have been inadequate to demonstrate that these weapons are more effective in combat than their predecessors and will reduce the combat casualties of their military users. This action will save significant funds, but more importantly, it will create powerful incentives for the Services to do more realistic testing and implement the will of the Congress as expressed in Section 1211 of P.L. 98-94 which established the Office of Operational Test and Evaluation. This action includes increases in OT&E funding as needed for more realistic testing.

HAS MORE MONEY SOLVED THE READINESS PROBLEM?

With the exception of improved personnel recruitment and retention rates (which, in part, have been influenced by the severity of the recent recession), it is the committee's judgement that improvements in readiness have not been proportional to the increased resources appropriated over the last four years.

The following table illustrates this input versus output problem in the readiness area. By the end of the FY82-85 funded delivery period (i.e., FY87), our war reserve stockpiles will still be far short of our objectives. Furthermore, these projections may be highly optimistic because they assume that deliveries will meet cost and schedule targets, that war reserves will not be diverted to support peacetime operations, that wartime consumption rates are accurately predicted, and that industry can increase production to a level supporting wartime consumption rates within the stated objective period. We note with deep concern that: (1) wartime consumption rates have far exceeded pre-war predictions in every major war since the American Civil War; (2) currently it takes about two years to deliver spare parts and munitions; and (3) there is very little industrial surge capacity.

TABLE 5.

War Reserves
Percent of Objective

	FY83[1]	FY87[2]
Munitions		
Army	70	83
Navy	20	35
Air Force	23	42
Marines	41	57
Parts/Support Items		
DOD[3]	27	65

---

1) End of FY78-81 funded delivery period
2) End of FY82-85 funded delivery period
3) Weighted average.

In the past four years, the total funding appropriated for Operations and Maintenance increased over the previous four years by 25 percent in constant dollars. Furthermore, as the table below shows, Congress appropriated more funds for O&M in the last four years than it did for the four largest annual O&M budgets in either the Korean War (i.e., FY51-54) or the Vietnam War (i.e., FY67-70). In both wars we were operating larger forces at much higher operational tempos, and we were absorbing significant losses of equipment.

TABLE 6.

Four Year Cummulative O&M Budgets (TOA)
(In billions of dollars)

	Korea 51-54	Viet Nam 67-70	Carter 78-81	Reagan 82-85	Reagan/Carter % Change
O&M TOA (Const. 85 $)	250.7	270.7	232.5	290.4	+25

Notwithstanding this 25 percent increase in O&M appropriations, the following table indicates training tempos are not significantly different from those of the previous four years. The apparent exception, AF tactical fighters, reflects the implementation of the out-year flying hour increases planned during the Carter administration. During the Carter administration, AF tactical fighter pilot hours per month went from 13 hours/month in FY78 to 17 hours/month in FY81. In the early seventies, fighter pilots were training at a tempo of 26 hours/month. So, current fighter pilot training tempos -- while improved -- are not back to historic levels.

TABLE 7.

Training Tempos

	Carter		Reagan		
	FY80	FY81	FY82	FY83	FY84
ARMY					
Trng/Days/Bn/Yr	-?-	-?-	161.7	162.4	161.9
Fly/Hrs/Crew/Month	18.8	18.4	17.2	16.8	16.4
NAVY					
Stm/Days/Ship/Qtr	32.4	33.5	32.7	34.1	34.9
Fly/Hrs/Crew/Month	24.2	24.4	23.7	23.6	23.7
Trng/Days/Bn/Yr	-?-	105.2	95.2	99.1	100.5
AIR FORCE					
Fly/Hr/Crew/Month	20.2	20.3	21.4	20.9	21.5
Fighters	16	17	18	18	19

Finally, despite these relatively constant training tempos, the 25 percent increase in the constant dollar O&M budgets of the last four years has not resulted in major improvement in materiel readiness as measured by mission capable (MC) or fully mission capable (FMC) rates, as reported by DOD in its "Improvements in U.S. Warfighting Capability, FY80-84", submitted to the Senate Armed Services Committee in May 1984. This report points out that the increased operating costs of the more complex equipment entering our inventory is a major cause for this disturbing state of affairs.

Summarizing the preceding points: Over the past four years, the Congress appropriated more O&M and Procurement funds in constant dollars than it did in the four peak years of the Korean or Vietnam wars. However, notwithstanding the fact that we are maintaining a much smaller force during peacetime, our plans show that we remain far short of sustainability objectives by FY87 (and these plans may be very optimistic), and training tempos and mission capable rates are, at best, slightly improved. In short, the readiness output does not appear to be proportional to the funding input. It is therefore the committee's judgement that future increases in the operating budgets should be contingent on demonstrable management improvements in these accounts.

Specific management actions recommended this year to fundamentally improve the readiness situation while implementing the defense freeze include:

- Vigorously implement the modern commercial airline approach to maintenance. This means eliminating regular overhauls based on arbitrary flying hours, age, or mileage limits and substituting individual component or subsystem rework only when physical evidence of degradation or failure exists. Adopting this approach across-the-board for airplanes, ships, and vehicles will save billions per year while significantly decreasing accidents and increasing in-commission time and training time.

- Fully fund all modifications that have shown, in operational test, that they enhance reliability and maintainability; make major reductions in the rest of the modification budget.

- Reduce total civilian and total officer end-strength, and allocate the reduction in such a way that the highest grades' end-strength is reduced by three times the percentage of the lowest grades. This helps solve the inordinate "grade creep" or rank infiltration of the last thirty years. Even more importatnly, it will significantly improve morale and effectiveness in the lower ranks by helping reduce the over-supervision and over centralization endemic to DOD today.

CONGRESSIONAL OVERSIGHT

Finally, the committee believes that the Congress needs a clear audit trail for the defense program. Each year the Congress appropriates funds that result in expenditure streams far into the future. Although these decisions are intended to implement stated policy objectives, the future consequences of annual appropriations decisions are not visible during the budget review. Furthermore, the Congress has no way of monitoring the deviation of actual outcomes from planned outcomes. In order to improve Congressional oversight of the Defense program, the committee recommends that the Congress require the President to submit the detailed five-year plans to the Congress each year as part of the President's annual budget submission.

Senator **Grassley**. Mr. Secretary, during the Carter years—and of course, before you became Secretary of Defense—there was a widespread perception that a stronger defense was needed. When you became Secretary, the Congress increased your budget in unprecedented proportions, and we gave you 95 percent of what you requested. That has already been pointed out. Now, I think in one of your closing statements that you made in your testimony, you referred to the heart of the matter when we look at defense spending as what are we getting for our money. You emphasized that we must look at that, and I do not see any fault with that. I am using that as a point of departure.

DEFENSE NOT GETTING MONEY'S WORTH

Despite this unprecedented amount of money, 95 percent of what has been requested, I think these charts make the point that the output has been nowhere near the input. It is obvious from my point of view—and others have made this same point today—that we are not getting our money's worth of defense.

These several charts will demonstrate this. This is information from your own Department, and it is in response to the usual arguments you use. I am taking off from where you left off—from the quantity charts that you used this morning. The first one I had up there—title page of Grassley document—raised the question about should we exempt defense from economic reality.

I am going to take some credit for bringing the issue before the Congress, that we actually need a defense budget freeze. It, has something to do with whether or not we will continue to get our money's worth.

Looking at table 2, you will see that we gave you a 75-percent increase in constant dollars over the Carter budget, for Air Force and Navy aircraft. For that, we got an 11-percent decrease in the number of aircraft.

Looking at table 3 the story is the same for major surface combatants—and I have to emphasize that these are major surface combatants. We increased your budget by 48 percent between the Carter years and the Reagan years, and you gave us 17 percent fewer ships. And again, let me emphasize those are in constant dollars.

Tables 6 and 7 deal with the subject of readiness. Twenty-five percent, more in constant dollars for readiness. As an example, an 8-percent increase in steaming days for the Navy; an increase in Air Force flying hours of 6.4 percent; a reduction in Navy flight hours by 2.5 percent; a reduction in air pilot training hours by 13 percent.

You can see these are operating tempos. Some are higher, some are lower. On the whole, though, for a 25-percent increase, there was only marginal improvement. But certainly not of the same proportion as the 25-percent increase in constant dollars that we gave you.

Table 6 puts the readiness budget into perspective. Not only are we spending 25 percent more on readiness than in the Carter years; we are spending more in constant dollars than either the Korean war or the Vietnam war. And what is important about that

is that in those wars, of course, as is the case with any war, we were operating larger forces at higher operational tempos, and we were absorbing significant losses of equipment. We do not have that situation during the Reagan years.

Table 1 gives the same perspective for the entire defense budget. We spent 22 percent more than the Carter years in constant dollars. We spent more in constant dollars than in the peak years of the Korean war and the Vietnam war. And we are not even at war today—thank God: Meanwhile, we are getting less than under the Carter years, at a time when we knew that we had to build up our forces.

MISMATCH BETWEEN INPUT AND OUTPUT

Now, this is kind of summarized from a paper that everybody has, in a paper that I am going to ask you in the next few weeks to take a look at and to respond to. These examples from this paper that I have released today analyze the enormous mismatch between input and output in the last 4 years.

The bottom line is we are not getting value for our money. There is a serious management problem in your Department, and until it is fixed, we should freeze the budget. This is why I am proposing a budget freeze, so that the problem will not get worse.

You probably remember that the President recently quoted from Luke. I would like to read his quote from Luke. He said, "What king would march to battle against another king without first sitting down to consider whether, with 10,000 men, he can meet an enemy with 20,000?"

I would like to quote from Luke three verses above that, Luke 14:28. "Would any of you think of building a tower without first sitting down and calculating the cost, to see whether you could afford to finish it?"

It is obvious to me that we will never catch up to the Soviets, as you are proposing that we do through your charts, as long as we are getting higher costs instead of getting more planes and ships.

So, Mr. Secretary, this is my request, and I do not preclude you from saying anything that you want to say publicly about what I have just said.

I would like to request a detailed, unclassified response to this paper, that I have presented to other members and staff, by March 7. That is 1 month from today. And I would like that response to be made part of the record, if the chairman has no objection to our doing it.

That is all I have to say. If you want to say anything, I do not want to preclude that, but I would like to have a response in writing.

Senator **Symms**. Reserving the right to object on the request, is it 1 month from today?

Senator **Grassley**. Yes.

Chairman **Domenici**. Well, let us ask the Secretary.

Senator **Symms**. Well, I would hope we could pass a budget out of here before a month.

Chairman **Domenici**. Let us ask the Secretary.

It is appropriate that the Senator submit by way of a question his position and ask that there be a response. The response is up to the Secretary. How long——

Secretary **WEINBERGER**. Well, we have not seen the paper yet, Mr. Chairman. I do not know how long it would take. I do not want to prejudge the result, but I would just say that I disagree about as strongly as possible with everything that Senator Grassley has said. But we will be glad to try to get a detailed response to whatever this paper looks like.

I think you ought to know just as a start that any chart that lumps all aircraft together starting with little, single—engine trainers and working its way up to advance technology bombers, is apt to be a little bit misleading. But we will certainly get an answer to whatever the paper says, and we will get it as soon as we can.

Chairman **DOMENICI**. Senator Grassley, if you will permit, I think we can submit the request with the question, and between us, pursue with the Secretary the time it might take, without setting a date. Frankly, if he could, I would like the answer sooner, to the extent that it is possible. So why don't we do that, rather than put a date on it, but assure the Senator that we will pursue it, and we have the assurance of the Secretary on the record that he will answer it.

Secretary **WEINBERGER**. Surely.

[The following was subsequently supplied for the record:]

RESPONSE TO REPORT

Answer. The response to the report submitted by Senator Grassley will be provided separately at a later date.

FREEZE NECESSARY FIRST STEP

Senator **GRASSLEY**. OK. I do not argue with the chairman, except that the discussion started off with why I not only feel that defense should not be exempted from economic reality, but also as a matter of a stronger defense, the freeze is a very necessary first step to getting more for our money.

Chairman **DOMENICI**. I understand

Senator **GRASSLEY**. Thank you.

Chairman **DOMENICI**. Thank you, Senator.

Senator Sasser.

Senator **SASSER**. Mr. Chairman, may I defer my questions for just a second? I have an important telephone call, and I would defer to whomever is next on our side down the line.

Chairman **DOMENICI**. Indeed.

Senator Hart, you are next.

Senator **HART**. Mr. Secretary, I wonder if we could have one of your charts back up. It is the one entitled DOD Operations and Investment Trends, with a big red band in the middle.

I believe that is it.

Secretary **WEINBERGER**. That is not one of our charts.

Senator **HART**. Whose is it?

Secretary **WEINBERGER**. I do not know. But I want you to be sure of authorship before we start.

Chairman **Domenici**. That is Senator Chiles'.

Senator **Hart**. Do you dispute the figures on it?

Secretary **Weinberger**. I have not had any opportunity whatsoever to check them, and I am always a little worried about anything that says "constant dollars 1985". I would just like to go back into the mathematics a little bit. I would be glad to talk about the chart, but it is not ours, and I have no basis for knowing how it was made up.

Senator **Hart**. The source, I am told, is the office of the Assistant Secretary of Defense, Comptroller, National Defense Budget Estimates for Fiscal 1985.

Secretary **Weinberger**. Well, there is a lot of material in that book, and when you translate it from a book to a chart, I still would like to check it, with your permission, Senator.

Senator **Hart**. All right. I am not going to ask you precise questions, in any case. I would like to see if we could agree on some basic facts.

First of all, a President, for example President Nixon, was elected in 1968, took office 1969. The first the Nixon budget was 1970; is that correct?

Secretary **Weinberger**. I believe that was probably about right, yes.

Senator **Hart**. I mean, under the normal——

Secretary **Weinberger**. He came in—probably, yes.

Senator **Hart**. But the normal course of affairs is that you are elected in 1 year, come into office in the next, and your first budget is the year after that—so, in effect, 2 years after the election.

Secretary **Weinberger**. Very likely, yes.

Senator **Hart**. So, first of all, we agree that the chart starts with Korea; is that correct?

Secretary **Weinberger**. Yes, that is what it looks like, yes.

Senator **Hart**. And the big hump in the middle is roughly Vietnam; is that correct?

Secretary **Weinberger**. Yes; I guess.

Senator **Hart**. Historically. All right.

So if you put a mark on the first Nixon budget, it would be year 1972; is that correct?

Secretary **Weinberger**. I would guess—I think 1970 would probably be the first——

Senator **Hart**. Yes, 1970. I am sorry.

The first Nixon budget would be 1970. And then, the first Carter budget, by the same logic, would be 1978; is that correct?

Secretary **Weinberger**. Probably, yes.

DEFENSE BUDGET DROPS 20 PERCENT IN SEVENTIES

Senator **Hart**. All right. So could you roughly describe for the committee what happened between the first Nixon budget and the first Carter budget?

Secretary **Weinberger**. Well, obviously, there was a big drop. Senator, I have never tried to put this on any kind of a partisan basis. I have said that during the decade of the seventies, there was a decrease—that is the whole 10 years of the period of the seventies, involving several different Presidents and two different parties—there was a decrease in defense investment and defense appropriations of over 20 percent.

Senator HART. Well, from Vietnam, certainly.

Secretary WEINBERGER. During that whole decade.

Senator HART. Well, then, let us look at the first Carter budget, which would have been 1978, pursuing the same rhythm, and the first Reagan budget would have been 1982. So what happens on the chart between the first and the last Carter budgets?

Secretary WEINBERGER. Well, Senator, that chart purports to show some sort of an increase. But the fact is that again, during that decade, defense spending went down 20 percent. What you are looking at, I guess—I did not make up the chart—but what you are looking at is completed action, not the budget that any President submitted, but completed action after the Congress finished with it. I assume that is what it is. It looks like there is a big trough and an attempt to start a recovery, the way that is charted.

Senator HART. Well, I do not think since it came from the Defense Department, we have any reason to particularly quarrel with it.

Secretary WEINBERGER. Again, some of the figures may have been taken out of the Defense Department publications. We did not make the chart up.

Senator HART. I do not want to dispute the issue. I think all I am trying to respond to is this constant drumbeat, whether from you or anyone else, that we inherited this mess, and solely by ourselves have we begun this so-called "build-up."

Secretary WEINBERGER. We have talked about the 4-year period of our stewardship, which I think is normal and appropriate. I have not attempted to lay any blame of the past on anybody. I have said that the full decade of the seventies caused a decline, for one reason or another, of 20 percent.

DOD TRYING TO MAINTAIN DETERENT CAPABILITY

Senator HART. Mr. Secretary or General Vessey, under your longest-term projections of spending, if you were to achieve all that you propose to the Congress, the 5-year plan or whatever your longest projections are, at what point would you think the United States would catch up with the Soviet Union in the number of submarines at sea?

Secretary WEINBERGER. First of all, we have no plan to catch up with the Soviets. What we are trying to do is maintain a deterrent capability. And second, we do not have any idea of what the Soviet plans are. They can get ours by going down to the Government Printing Office. We have no idea what theirs are.

Senator HART. We know how many submarines they have at sea today, though, don't we?

Secretary WEINBERGER. Yes, we have some estimates of that. But again, you ask when we will catch up. We do not plan to catch up. We plan to maintain a deterrent capability. If we were trying to catch up, you probably would not even let me in the room because of the size of the budget that would be required

Senator HART. Well, there are other areas of procurement, weapons systems, where it seems that our force levels are driven by

Soviet force levels. I have seen the tank comparisons, the plane comparisons, and the rest. Why don't we see the same comparisons on submarines?

WHOLE BUDGET DRIVEN BY EXTERNAL FACTORS

Secretary **Weinberger**. That is the point I have been making 100 times, that our whole budget is driven by external factors—the Soviet threat, the growth that they have—but again, it is not an attempt to catch up to them. When you are 44,000 to 14,000, you are not trying to catch up. We are trying to get the best tanks we can and to have enough in the proper places so that it deters an attack. But again, we would have to ask 30,000 tanks instead of 800.

Senator **Hart**. So your long-term projections, or those of the Department, departmentwide, are not to try to match the Soviets in numbers of submarines, or to even come close?

Secretary **Weinberger**. We could not possibly do it, Senator. They are much too far ahead of these categories. That occurred because they have been building up for 22 years, and we have been either using our equipment, as you pointed out, in Vietnam, or not replacing it, as I pointed out, during the seventies.

General Vessey?

General **Vessey**. Our strategy is one of deterrence and defense, and I do not think there has ever been any intention to catch up with the Soviets in any category, whether it is manpower, equipment, or whatever it happens to be. What we want, in conjunction with our allies, is a military posture that makes it clear to the Soviets that they cannot attack us successfully. If we do that, we will have succeeded in keeping the peace.

We do not believe we need to match them man-for-man, tank-for-tank, or plane-for-plane to do that.

SOVIETS HAVE ADVANTAGES IN EVERY CATEGORY

Senator **Hart**. And so both you gentlemen, being the highest uniformed and civilian officials concerned with defense, believe that the Soviet submarine advantage of three-to-one does not put us in a position where our deterrence and defenses are jeopardized?

General **Vessey**. The Soviets have advantages in almost anything you can name, Senator, and they all threaten us, and what we have to build are the defenses with our allies to counter those threats.

Secretary **Weinberger**. We cannot do the task alone. When we say we come in with a moderate and a reasonable budget, you have emphasized that completely. We cannot present within the resources that are allocated either to the Department or the Government, the amounts necessary to catch up after such a long period of imbalance.

But yes, it is a threat, and yes, that is why we are here with what our requests are, and yes, we hope to deter an attack. But we are not trying for superiority.

Senator **Hart**. But your assurances to the committee and the Congress are to the effect that your budgets, if you were to receive all you wanted this year and all you wanted the next 3 years, would provide a sufficient deterrent at sea in the submarine area?

Secretary **WEINBERGER**. We believe we would be in that position, and we certainly hope so. We cannot afford to be very wrong, and that is why these cuts that are proposed and freezes and all worry me so much.

Senator **HART**. Thank you, Mr. Chairman.

Chairman **DOMENICI**. Thank you, Senator.

Senator Quayle.

Senator **QUAYLE**. Thank you, Mr. Chairman.

TREMENDOUS SERVICE PROVIDED IN RESTORING SECURITY

First of all, let me just state for the record that some of us on this side in particular strongly disagree with the assertion made by the Senator from Iowa that perhaps you have not done a capable or a credible job as Secretary of Defense. Many of us feel that you have provided a tremendous service to this Nation in restoring the national security, because we do have a strong defense right now, we have deterrence. Deterrence has worked, there is no doubt about it. We are not going back and pointing fingers, but there is no doubt that after the decade of the 1970's, the United States was perceived as being very weak. I believe that that perception is no longer there, and in fact, we have restored the national security, in no small measure because of what you, Mr. Secretary, General Vessey, and others, have been able to do in conjunction with the Congress.

I would like to let that go on the record.

Secretary **WEINBERGER**. Thank you very much.

IDENTIFY AREAS OF POTENTIAL SAVINGS

Senator **QUAYLE**. Mr. Secretary, everyone is interested in cutting defense. I suppose everyone realizes that there will probably be a reduction in defense, and it is going to be more difficult to reduce non-defense spending. But as we get into the reduction of the administration's request for defense, I suppose we should identify where we might be able to bring about some savings.

I have a report here that I will put in the record, indicating that in the defense authorization bill last year, the Congress added $2 billion above what the administration requested in authorization; it appropriated $1.5 billion more in procurement accounts—literally hundreds of which were add-ons. So a lot of this, the add-ons and the defense increases, have come through Congress. You can call it "congressional pork" or whatever but it is above what the Defense Department has recommended.

[The following was supplied for the record:]

FEBRUARY 7, 1985.

The attached chart shows the magnitude of Congressional add-ons to the FY 85 national defense budget in only one portion of the budget review process—the authorization process.

The chart lists the programs in procurement and research and development to which the Congress, both House and Senate, added funds beyond the amounts requested by the President. Total funding added in the authorization process in these two accounts alone amounts to over $2 billion. Final appropriations action permitted over $1.7 billion of that amount to be appropriated—all above and beyond the amounts requested by the President in his defense budget request.

Amounts reflected in this chart do not include add-ons to the military construction budget or in other areas of the defense budget. Also, the appropriators added over $2.8 billion to various programs above and beyond the amounts authorized to be appropriated.

Account and program	Fiscal year 1985 request		Additions in authorization conference		Additions in final appropriations action	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Army procurement:						
C-12D		0.0		24.0		24.0
AH-1S MODS		45.9		44.1		44.1
Chaparral		0.0		32.0		32.0
TOW-2	18,000	240.3		13.2		0.0
TOW MODS		17.9		9.6		9.6
TOW spares		3.5		5.6		0.0
Improved TOW vehicle		0.0		27.0		27.0
Field Army Air Defense		0.0		25.0		0.0
M-1 advance procurement corresponding decrease in calendar year procurement		289.4		45.0		24.2
Copperhead		102.8		32.3		28.1
9MM personal defense weapon	14,650	5.0		5.0		5.0
155MM smoke WP		12.5		12.5		12.5
Barrier ammunition		0.0		1.0		0.0
Arapaho helicopter support kits		0.0		20.0		0.0
NI Troguanidine		23.2		2.1		0.0
Navy procurement:						
A-6E advance procurement (corresponding decrease in calendar year procurement)		0.0		15.1		15.1
SH-60B helicopter	18	333.2	6	67.4		41.8
SH-60B advance procurement		52.4		5.5		5.5
Adversary aircraft	8	66.8	2	50.0		50.0
Penguin MODS		0.0		11.7		11.7
Copperhead		0.0		12.5		12.5
Air Force procurement:						
C-130H		0.0		288.0		288.0
A-7D FLIR MOD		0.0		26.0		42.0
C-131 MODS		0.0		8.0		8.0
C-130H spares		0.0		12.0		12.0
C-12J range control aircraft		0.0	6	12.0	6	12.0
Flight inspection aircraft		0.0	1	20.0	1	20.0
Flight inspection aircraft spares		0.0		3.0		3.0
AIM-7F/M Sparrow		0.0	600	130.0		65.0
AGM-65D Maverick advance procurement		0.0		15.0		0.0
Defense agencies procurement: NSA (classified program)				12.5		0.0
Guard and Reserve equipment		0.0		90.0		380.0
NATO Air Defense Programs		0.0		250.0		0.0
Total procurement add-ons				1,053.1		1,149.1
Army R&D:						
Surface-to-surface missile rocket system		35.4		10.0		0.0
Dragon warhead upgrade		0.0		9.8		0.0
Force development initiatives		0.0		55.0		0.0
Education and training		7.7		2.3		0.0
Arapaho		0.0		3.0		8.0
Navy R&D:						
Lighter-than-air technology		0.0		5.0		0.0
A-6E improvements		19.6		50.0		50.0
Mine development (advanced)		0.0		1.0		1.0
MK-92 FCS upgrade		19.3		18.5		0.0
F/A-18 squadrons		19.8		10.2		10.2
Marine low-cost FLIR		0.0		12.0		12.0
Penguin missile		0.0		14.6		14.6

Account and program	Fiscal year 1985 request		Additions in authorization conference		Additions in final appropriations action	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Joint service rotary engine		0.0		6.0		5.0
T-700 engine		0.0		10.0		10.0
Ship propulsion system		47.7		11.0		0.0
Ship systems engineering standards		4.8		1.3		0.0
Marine Corps ground combat support system		3.6		4.0		0.0
Low-cost anti radiation seeker		0.0		14.7		14.7
Advanced submarine technology		0.0		30.0		0.0
Submarine laser communications		0.0		2.5		2.5
Air Force R&D:						
Advances strategic missile system		108.3		4.7		0.0
SAC communications		1.5		1.5		1.5
C–5 demonstration		0.0		2.0		0.0
F–15 squadrons (corresponding decrease in fighter derivative aircraft R&D)		82.9		106.9		106.9
F–16 squadrons		83.4		11.6		11.6
Fighter simulator development (F–15E)		149.9		0.1		0.0
VHSIC		120.0		30.0		15.0
Electronic warfare technology		22.1		8.0		0.0
Strategic conv standoff capability		21.6		15.0		3.4
Protective systems		48.6		10.0		0.0
Classified program		0.0		4.0		0.0
Defense agencies R&D:						
Support to USDR&E		14.6		30.0		14.1
Strategic technology (ST–9)		150.7		31.5		15.1
DIA				3.4		0.0
Total R&D add-ons				529.6		295.6
Total congressional authorization add-ons in procurement and R&D			2,112.3			1,740.3

Senator QUAYLE. I think that the Congress can certainly look at some of the things they have instituted over the years. I would like you to help us by identifying some areas where we can effect some potential savings. I know you have recommended and we have talked about the possibility of more contracting out as a means of potential savings. There has been some discussion if we would modify or even repeal the Davis-Bacon Act, that there might certainly have a positive fiscal impact.

There has been some discussion about base consolidation and base closings that could also serve as a means of potential savings.

There has also been some discussion of potential savings if we can get away from some of the congressional-mandated impediments to efficient procurement and turn to dual-sourcing which the administration and the Department of Defense have requested for the M–1 engine. This could certainly be an area of savings.

The administration has requested, and Congress has denied dual-sourcing on the HARM missile, and here there would be savings to be made.

I wonder if you might be able to respond to these points, so Congress may consider potential savings on some of these areas.

We get a little bit of a free ride on the Budget Committee because we just debate percentages or aggregate numbers—we do not actually get down to the specifics of the program. I would imagine that probably a lot of this rhetoric will die out as the authorization-appropriation process proceeds. Then we'll see what a freeze really does. I believe in your opening remarks you discussed what a freeze would actually do to some of these procurement contracts. Some of this talk of contract cancellation may change when congressmen find out how it will affect their particular congressional district or their particular State.

So I think that as we go along in this process we certainly do have to look for any efficiencies that we might be able to accommodate. Would you be able to furnish us a list of potential savings in those areas I have identified?

Secretary **Weinberger**. We would be glad to do that, Senator. There are, of course, two or three ways you can make up a budget. You can make up a budget and assume the repeat of a lot of legislation that has been on the books such as Davis-Bacon, and then put in a budget what you would spend. We know that the odds of that happening are somewhere below zero, and so we do not make up the budget showing those kinds of savings. We will certainly be glad to identify for you various savings that would occur if we could change some of the rules and statutes under which we operate.

Some of those savings are not achievable in the first year or two but ultimately you can get some. That is true of base closures, for example. As you know, the ground rules limit us now closing any base. It takes 22 months before you can do it, so there would be legislation that would be required. There are, of course, closing costs. But ultimately, with changes in legislation, as you pointed out, you could get some savings. We would be glad to give you lists of those kinds of reductions that could be made in the outyears.

REDUCE DEFENSE IN HONEST WAY

Senator **Quayle**. I think that would be helpful. One final thing, Mr. Secretary and General Vessey. It seems to be a given fact here in Congress that there are going to be reductions from the administration's request on defense. Many of us are beginning to say, OK, if we are going to reduce let us do it in an intellectually honest way. And when I say an intellectually honest way, I think we really need to take our case to the American people and to our allies and say, OK, because of certain fiscal problems—because of political problems that we find here in Congress, perhaps we are not going to be able to have the force structure we have had in the past. And I am not talking about reduction of the force structure and the combat-ready units. I am looking at perhaps noncombat-ready units. But I would just like to say that many of us who have a strong orientation toward defense and the Armed Services Committee feel that if in fact we are going to get this kind of a reduction, that we really ought to start going forward and take the risk. Tell the American people and our allies that there are certain risks involved. I think that this would certainly be a fair and candid way that we can compare the reductions with the risks that are going to occur, rather than going through the old procedural habits that we have, such as stretching out programs and trimming around the edges; in the outyears, the unit costs are going to be higher, and we are going to be paying more, even though we are paying less today, and we will get away from multiyear contracting, which I think is beneficial.

I believe if we are going to reduce defense spending, the Congress, the American people, and our allies ought to know what the consequences are going to be.

Secretary **Weinberger**. I agree with you, Senator.

CHANGES IN LAW MIGHT CAUSE SAVINGS

Chairman **Domenici**. Thank you, Senator.

Mr. Secretary, I assume with reference to the law changes that might cause savings—Davis-Bacon was alluded to; limitations on multiyear contracting et cetera—that as you develop that, you will put some cost estimates alongside and submit them?

Secretary **Weinberger**. We will try to do that in a realistic way. Actually, limitations on multiyear procurement would cost money—multiyear procurement saves money. But we will be——

Chairman **Domenici**. But what I meant was we still have some limitations.

Secretary **Weinberger**. Oh, I see what you mean, yes, yes. We will try to do that as realistically as we can, and we will be glad to do it. It would be to everybody's interest.

Chairman **Domenici**. I can assure you that we understand that you cannot build those savings in if it is not the law, so that the purpose is to assess whether we have the wherewithal to change the law. I assume that is the thrust of Senator Quayle's statement.

Senator **Quayle**. Certainly. I think if Congress is looking for potential savings, that some of these issues I have identified, are an excellent place to start. These issues are impediments to efficient production imposed by Congress. Only Congress, not the Secretary of Defense, can bring about the savings, but it does require that the Secretary provide Congress with a list of impediments and potential savings and challenge Congress to change them.

Chairman **Domenici**. Fine.

Senator Riegle.

Senator **Riegle**. I think Senator Sasser is next, Mr. Chairman.

Chairman **Domenici**. Oh, excuse me, Senator Sasser.

Senator **Sasser**. Thank you, Mr. Chairman, and thank you, Senator Riegle.

Mr. Secretary, I have been on this committee for 8 years, now, and I remember your predecessor, Mr. Brown, coming to us. He was concerned about the state of the Nation's defenses. And what happened was President Carter went to Europe, and there was agreement between then President Carter and our NATO allies that we would increase defense spending, all of us, by 3 percent in real terms.

We embarked on that course, and as you know, most of our NATO allies did not. There was a developing consensus in this country, I think, that really reached its fruition, perhaps in the Presidential campaign of 1980, a consensus that we needed to increase substantially our investment in our national defense effort.

Now, since that time, we have spent $1.2 trillion to defend this country and defend the free world. And during that period of time, as you know, Mr. Secretary, the national debt has increased by

$900 billion, or about three-quarters of the $1.2 trillion defense buildup.

So, you could make a case that for every dollar we spend on defense, 75 cents of it, we are having to borrow.

Now, what we have done along the way, judging by my contacts with constituents, judging by my mail, and judging by what I am reading in the national press, and judging by conversations with my colleagues, over a period now of 5 years, we have destroyed that national consensus that more should be devoted to rehabilitating and modernizing the defense of this country.

And I would say to you, and I suspect most of my colleagues would say to you, that the request that we spend an additional $2 trillion over the next 5 years is simply not going to be granted. And the reason is because the country simply cannot afford it.

FUTURE ECONOMY BEING MORTGAGED

What we are doing, in my judgment and in the judgment of a lot of people, is mortgaging the fiture economy of this country to defend the free world as we see that defense is necessary, and we are not getting adequate help along the way from our allies.

Last year, Senator Nunn attempted to pass an amendment which would have called for a small percentage of NATO troops to be withdrawn from Western Europe, if our Western European allies did not live up to certain basic and fundamental responsibilities, to wit, maintaining and amassing a reasonable ammunition supply that would last at least long enough until relief troops could get there from the United States, relief aircraft, et cetera. And, rather than the administration supporting that effort and sending a message to our friends in Western Europe, it opposed it.

I think the fundamental facts are that the economy of the United States is not going to be able, indefinitely, to sustain this very military buildup which my colleagues have pointed out there, in constant dollars, which substantially exceeds what we did in Vietnam, into perpetuity without getting at least some help from the rest of the free world, because if we do not, I think what we are going to see in the not-too-distant future is a disabling of this great engine we call the American economy that fuels what the President borrowed from Franklin Roosevelt last night and called the arsenal of democracy.

Now, my question to you, sir, is this. What are you doing, and what is this administration doing, to send a signal to our friends around the world that they have got to do more in this common effort to maintain and rehabilitate and modernize the defenses of the free world?

I think that is a fundamental question that we are going to have to deal with, because I think the consensus for substantial increases in defense spending has been shattered in this country.

Secretary **WEINBERGER**. Senator, I agree with you that is a fundamental question, and I agree with you as to its importance. I will tell you what we are trying to do and why we should do it.

Let me also say that a measure of increase such as the 3-percent goal, to my mind, is not as significant as the question of what you get for it. You can do a 3-percent increase entirely by pay, but that will help your readiness only a bit. It does not give you the added total military strength that you need.

Two points. NATO, for many years—during that period of the seventies we were talking about just a moment ago with Senator Hart—was doing more than we were on a proportionate basis. We are now at the point where we are urging, as we have for the last 4 years, NATO and Japan and our other allies to do more. Korea does a very great deal, and we do not have to do much urging there. But there are a number of allies where we have to make major efforts, which we do.

There are two or three ways you can do it. You can call a press conference and beat on the table and get some headlines, but that does not work well. You can try it as quietly and as effectively as you can, and I think that will work better. It is slow. I think we all need to increase our defenses—they do and we do—because the threat is not diminishing in their part of the world nor in ours.

NATO AGREES TO SPEND $8 BILLION

The other way you can try to do it is by sort of threats and intimidation, which is to say, we will take 25, 30 percent of our troops out of Europe if our allies do not do more. I do not think that is very effective. I may be wrong. That is why we opposed the Nunn amendment because we think that the allies have done more. Of course, they have economic problems, as we do, and we think that quiet persuasion and a demonstration of the facts, presenting them with the nature of the threat, as for the Soviet military power book that we drew up initially at their request—all of these are ways in which we hope we can do it. It is working slowly. This last year, there was an average of a little over 3 percent increase among all the NATO countries, some more, some less. More significant, at the December meeting of NATO, we got full agreement, unanimous agreement, that NATO members would spend $8 billion in the next few years, about twice as much as they have ever authorized before, for infrastructure improvements, to help receive the reinforcing troops, and to help with the things necessary for support of the military units necessary to defend Europe.

In Japan, they will go up a little more. We believe. Defense is the only agency that is getting an increase in the Japanese budget now, for 2 years. That has been the result of a lot of quiet urging and very strong support from the Prime Minister and the Government.

So it is a slow process. We think they need to do more, and we think we need to do more. The burden has to be shared. We cannot do it alone.

But the other thing I think is vital to bear in mind is that we are not in Europe, or in Japan, or in Korea for altruistic reasons only. We are there because that is the very best place to defend the United States; forward deployment of our forces can best deter attacks on us and on our allies. And we cannot live in a world if these areas are overrun by our potential opponents, and so we have to do what we are doing. I think it would be fatally wrong to, either by threat or intimidation, or by any kind of other method, to reduce the forward deployment of our forces, which helps them, of course, and helps us.

EDGE GIVEN R&D IN DEFENSE

Senator **Sasser**. Well, my time is up, Mr. Chairman. I would just follow on by saying this. I think this continued deficit spending to finance this massive defense effort is rotting out the foundations of this economy. We are falling behind in so many areas, economically, around this world. And I note that research and development funds used to run at the rate of a 50-50 split in our budget, R&D between defense matters and nondefense matters. And I look at the President's budget for 1984. There is now a 3-to-1 edge given for R&D in defense as opposed to overall R&D generally. And I think that is one reason we are seeing the Japanese economy and others starting to move out and put us in the shade, simply because too much of our national investment, is going into the manufacture of this hardware that really has not much utility, economically, Mr. Secretary, other than to either wage war or to deter war.

Secretary **Weinberger**. Well, Senator, I think the fact that the military pays for a lot of R&D does not mean that only the military benefits from it. It benefits the civilian economy, and it gives us access quite frequently as civilians to things that we would not otherwise get for many, many years.

Senator **Sasser**. Well, there is some spinoff, there is no doubt about that. But it is not nearly the kind of payoff you would get if you had a more targeted R&D that would be pinpointed more toward helping the civilian economy, and I think we could agree on that, Mr. Secretary.

Secretary **Weinberger**. Yes. We are not opposed to more civilian R&D.

Senator **Sasser**. Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, Senator Sasser.

Senator Hatch?

Senator **Hatch**. I have a statement that I would like inserted in the record.

Chairman **Domenici**. Without objection, it will be inserted at this time.

Prepared Statement of Senator Hatch

Mr. Chairman, the purpose of this session is to review the fiscal year 1986 budget of the Defense Department. Our distinguished witnesses, Defense Secretary Caspar W. Weinberger and Chairman of the Joint Chiefs of Staff, General John W. Vessey, Jr., will ask us to support a request for $314 billion in budget authority to equip, supply, and provide a force structure capable of executing military strategies against threats to our national security.

My colleagues know that I am very dissatisfied with the way this country formulates the budget, especially in the defense sector. My grievance is simple: "We spend too little time discussing strategy and threat and too much time quibbling over expenditures for purposes which we do not fully comprehend."

As we proceed, I would like to suggest a few evaluative criteria that may help us better understand the uses to which we will be putting this country's ever scarcer resources. Let me encourage my colleagues to put aside the historical record showing past defense versus non-defense spending comparisons. Even though these statistics actually strengthen the need to revitalize our forces after years of neglect, the focus of defense spending must be our current and future threat assessments and the related strategic requirements.

I therefore offer the following analytical framework to guide our discussion:

What is the threat?
What is our strategy?
And, for us, the budgeteers,
What is the most cost-effective force obtainable?

How can this framework be applied? Let me illustrate:

The Soviet Union constitutes a global military threat with a balanced nuclear-conventional strategy and force. Here, Mr. Secretary, you must make your case. And we assume that you will, with great eloquence. Having framed the threat, you must then give us your strategy and outline the force requirements necessary to its support.

The military strategy, according to the JCS Posture Statement, assumes that the U.S. would defend itself vigorously if deterrence were to fail. Mr. Secretary, we will want to know if: our deterrence is adequate, our alliances are strong, our forces are prepared, our flecibility is assured, our controls are reliable, and our intelligence is accurate & timely.

These are the criteria which will guide my ultimate judgment as to what the nation can spend on defense.

Senator HATCH. Mr. Secretary, I differ with Senator Sasser over just what the deficit is really fueling. That is, the military budget will be around 29 percent, compared to 46 to 49 percent under John F. Kennedy's Presidency. And if it is only 29 percent, that means the other 71 percent of the budget; which is for domestic and social welfare, is also being fueled by the deficit. I have seen domestic and social welfare spending programs rise even more than those for the military.

Be that as it may, Mr. Secretary, defense is one area where the past can be a dangerous prolog for the future. In budgeting for defense, we make decisions without establishing priorities, because we ignore current threats to our survival. With this in mind, tell us what a freeze on the defense budget would do to the defense priorities upon which most Americans would agree—and let me just give you a couple of examples.

What would be the impact of the freeze, say, on our NATO commitments? And let us use another one—our readiness posture?

FREEZE WOULD BE DANGEROUS

Secretary WEINBERGER. It would depend on how you tried to administer it. We would try to protect readiness, but inevitably, with cuts of the magnitude that would be imposed by a freeze, you would have to get into a very substantial amount of reductions in a large number of accounts. We would try to protect the strategic modernization. But there again, we would have to go much more slowly, making the unit costs very much higher. If you protected readiness and the strategic modernization programs, then you would have to start going back into personnel, you would have to eliminate an armored division, which would save you $700 million a year; you would have to retire about one-third of the Navy's destroyers, which would be another $700 million a year; you would have to deactivate an Air Force wing. That would be $200 to $300 million a year.

You would have to shut down a great many of the actual production lines, not just stretch them out, but you would have to shut them down—such as F-14's, 15's, 16's. You would have to delete all new warships——

Senator HATCH. But wouldn't that be tremendously dangerous for our country?

Secretary WEINBERGER. I think so. I think it would be the most dangerous thing you could do. I think that Senator Hart, in pointing out some of these differences between the Soviet numbers and ours, emphasized what a basically not just foolish but a terribly dangerous course it would be to say we cannot afford it, not only because of the cuts in actual strength, but because of the signal it would send around the world, that we simply lack the will and the resolution. We can afford to do what we have to do. But you simply cannot cut out things of that kind and at those levels of numbers and expect to remain safe in this kind of a world, where the other side, so to speak, is not under any similar constraint whatever.

Senator HATCH. Mr. Secretary, I notice in this particular chart we have today that you have specified the amounts what you request as your fiscal year 1986 budget authority and in outlays. How do those figures differ from that which we agreed upon as a Congress last year, as we put tentative figures in for fiscal year 1986?

ASKING FOR LESS THAN IN LAST YEAR'S TENTATIVE RESOLUTION

Secretary WEINBERGER. They are about $2 billion below the joint budget resolution that we passed about 4 months ago.

Senator HATCH. Oh, you mean budget authority is $2 billion less? How much are the outlays below what we said last year was the minimum necessary for fiscal 1986?

It is $277.5 billion here.

Secretary WEINBERGER. Yes; I think they are relatively the same amounts. Both the authority and the outlays are below the budget resolution——

Senator HATCH. As I recall——

Secretary WEINBERGER. I am told $1.6 billion for outlays, and a little over $2 billion for authority.

Senator HATCH. In other words, you are coming in this year, asking for less than what we approved last year in our budget resolution for fiscal year 1986?

Secretary WEINBERGER. Yes, sir, exactly—a point that I have never been able to get anyone else to seem to understand.

Senator HATCH. Well, how can you justify that if we have such serious difficulties throughout the world? I just came from Central America——

Secretary WEINBERGER. Senator, we would rather not do it. We agree with you about the rest of the world. But this is what we have tried to do to fit into the overall fiscal requirements of the administration.

Chairman DOMENICI. Could I just have a little word with the Senator from Utah? That is an interesting exchange, but it goes both ways. The Secretary has never felt bound in the other direction on budget trend lines. He has no difficulty coming in over them; that does not mean the budget resolution is affected 1 year or another.

Secretary WEINBERGER. Mr. Chairman, we have never come in one nickel over what the President directed. [Laughter.]

Chairman DOMENICI. Well, I know that. I agree 100 percent. I am merely saying that the budget resolution in the outyears has not been a deterrent to your coming in over it. It is interesting that for once, you came in under it. That is the only point I make.

Secretary WEINBERGER. Well, it is evident of the way in which we are attacking the deficit, sir.

Chairman DOMENICI. I understand.

$36 BILLION SCRUBBED FROM BUDGET

Senator HATCH. Well, then, how did what the President has directed, and what we have actually put in and you have agreed to through these last 4 years, how did that compare with what Jimmy Carter said was the minimum that was necessary for the national security——

Secretary WEINBERGER. Well, based on the last projections he did, it is just a little under those. Fortunately, we brought inflation down——

Senator HATCH. Do you mean, each year we have been a little under Jimmy Carter's projections?

Secretary WEINBERGER. No; we have now taken so much out of the $116 billion that the President recommended in 1981 as the amount necessary to add to President Carter's recommendation, that we are below that $116 billion, if the 1986 budget is enacted as submitted. But we have been very, very fortunate, very lucky, very skilled, or whatever you want to say, about getting inflation down. That has meant that we are getting more defense than President Carter's plan would have purchased. But it still is below what we felt in 1981 was required, it is below what we felt in the beginning of 1984 was required.

But again, this budget is not made up on the basis of an unexamined or unreduced wish list. It has been scrubbed many times. We have taken $36 billion out of it since just 1 year ago.

HELP NEEDED TO PREVENT ANOTHER CUBA-TYPE TAKEOVER

Senator HATCH. If I could just say one other thing, Mr. Chairman. Just a few weeks ago, I was in Central America–which I happen to think is quite important to the——

Secretary WEINBERGER. We share your feeling.

Senator HATCH [continuing]. Rest, peace, well-being, and tranquility of this hemisphere. And I remember 6 months ago, the transfer, for what I considered to be minimum military needs, of an old, better-than-30-year-old, plane that had Gatling guns mounted on it. That transfer has demoralized most of the guerrillas in El Salvador, at a very small cost, and I might add, for very good reasons. And I cannot believe how upset some Members of Congress were. Some of our people in Congress tried to stop the Salvadorians from being able to use that plane to defend their country, to support Mr. Duarte—whom most Members of Congress wanted to support.

Everybody talks in terms of MX's, and they talk in terms of B–1 bombers, and all of this modern, high-technology equipment, and yet we have trouble getting some of the most minimum equipment in some of most crucial areas. In particular, I think what you say is true, that we have allowed the military to slip disastrously over the last 20 years to the point where the Reagan administration has had the very difficult burden of trying to bring it back. And if you spend much below what you are now spending, your major is that you are going to have to cut into programs that will destroy what you have been able to accomplish. Keep in mind, we are still 20 points below what President Kennedy spent in order to keep our Nation the strongest in the world.

Secretary WEINBERGER. That is absolutely correct, Senator.

Senator HATCH. Thank you, Mr. Chairman.

Chairman DOMENICI. Senator Riegle, could I just make one observation?

In saying to Senator Hatch now that he is absolutely correct, I assume you are responding to the broad slippage over the last 20 years. You were not implying, I hope, that it is the defense budget that makes it difficult to help Central America. I assume it is the act of Congress that ties hands as to what you can or cannot do.

Senator HATCH. That is what I was referring to.

Secretary WEINBERGER. That is what I understood him to say.

Chairman DOMENICI. Not equipment, but rather, what you can do with equipment.

Secretary WEINBERGER. Yes.

Senator HATCH. But it is equipment, too, isn't it?

Secretary WEINBERGER. It is the total approach to aid to El Salvador that I think he was referring to, and I do agree that more is needed in order to ensure that we do not have another Cuba-type takeover.

Chairman DOMENICI. Indeed.

Senator HATCH. I do not mean to take from Senator Riegle's time, but just one other point, and then I will leave. And that is, the point that I was making was that we always think in terms of the exotic weapons, and we are unable to even provide, under certain circumstances—I think primarily because of Congress' lack of support and because of the limitations that we have anyway—even some of the most minimal necessities that really might be still in the national best interest of this country—and international best interest of this country.

Secretary WEINBERGER. Yes, sir.

Chairman DOMENICI. Senator Riegle?

ECONOMIC COLLAPSE WOULD BE DEVASTATING

Senator RIEGLE. Thank you, Mr. Chairman.

Mr. Secretary, we have had some sharp exchange of views before, and we have got some sharp differences of opinion today. I want to suggest a way that we could work together to look carefully at our options for bringing these massive Federal deficits under control.

Over the past 4 years, myself and others here have tried to reduce the defense request in certain ways. We have had some success, and have not been successful in other areas. In the end, I have supported the Defense appropriations in each instance, even though they have been higher than I believed were wise or necessary, because it was an all-or-nothing situation.

We are at a point now, I think, and I sense this in conversations with my colleagues on both sides of the aisle and you are reading this as well, in terms of the commentary that you are seeing, that we have got terrific economic problems that are building up in the system. They are financial in nature and there is great concern about them. Those of us who serve on financial committees are seeing a constant parade of business and financial institution leaders coming in and saying that unless we get these deficits down, we are really risking enormous dangers, not very far ahead—maybe 1 year, 2 years, maybe 3 years. We are hearing this from people ranging from the Federal Reserve Board to Mr. Penner who was here yesterday, and from business and financial readers from across the country.

My own view is that our economic strength as a nation is just as important as our military strength. In fact, I think an economic collapse would be as devastating to our national security as a military setback. I think we had a recent example of that. We had a military setback, in Lebanon. We have been able to work through that. But if we were to have a major economic problem develop in the relatively near future, I think the consequences would likely be far greater.

Now, there are several measures of this buildup of stress on the financial side of our system. The deficit clearly is one. The trade deficits, roughly $130 billion in fiscal year 1984, headed for $150 to $160 billion in the year ahead. The increasing reliance on foreign loans. The continuing high real interest rates, which everyone is concerned about. We are going to become a debtor nation this year for the first time.

This increasing economic jeopardy is caused, I think, in a very substantial part, by the massive defense buildup, which others have talked about today. I think, our defense buildup in terms of its economic effects has now reached the point of diminishing returns. I think when our military strength is put together with our overall economic strength—that is both military and economic—we are at a point where, if we continue to spend at the current rate on defense, we are going to find ourselves in a weakened posture with this overall definition of national security.

SPENDING FREEZE NEEDED

I do not expect you to agree with that or to hold that view yourself. Clearly, from what you have said, you do not. I am expressing the view that I hold. But for that reason, I think we need to have an across-the-board spending freeze, and I think we need it right now. I am hearing that from a rising chorus of voices across the country, of major leadership figures outside of Government. It has to include defense, as painful as that may be to try to contemplate as the person charged with running that Department of the Government. I do not think, in a sense, you are really any different than anybody else in the need to have to meet what is a new requirement that I think is imposed on us by our fiscal situation.

In addition to that, there are any number of examples, and you are probably more familiar with them than anybody here. They are in the news each day—examples of defense waste—there is obviously waste in other areas of Government, as well, but we have seen some extreme examples in defense, such as overlapping systems, a point of controversy and concern. We are continuing to pile up nuclear weapons that we dare not even use.

But without pursuing those specific things, I have two formal requests that I want to put forth to you today and ask you to provide for the record. I am prepared to work as best I can with yourself with the chairman of this committee, who is very sincere about it, and others as we go down through this budget process to try to work out some kind of a bipartisan solution. I will work as hard as anybody in the Senate.

STRUCTURING DEFENSE FOR 3-PERCENT GROWTH

I would like to have you provide to me and to the committee—and I hope the committee would embrace the request, making it not a request from a single Senator, but from the committee as a whole—how you would propose to structure the defense budget if we were to see a decision on the part of Congress to go to a 3 percent real growth figure—which is the figure that is much talked about. In addition, if we were to go down to a budget authority freeze, using the criteria that you yourself spelled out earlier, namely, that when you have to try to get by with less than you really want, you do it in a way that damages the Department the least.

I think what we need to have, and what I know I need to have as a Senator, is an assessment from you as the person in charge of this area as to how that kind of reduction would in the most serious way be made in terms of what its impact would be in the make-up of the defense structure.

Now, obviously, it cannot all come out of readiness and things that have to do with categories like that. Some of it would have to come out of systems. We have to have at this stage of the game from you a formal response in some reasonable period of time, how you would see the defense budget structured if we had a 3 percent real growth or alternatively a freeze on budget authority. I do not know that—I think we would probably get so snagged on that in terms of the time frames we are under that we probably would not get it.

I want to finish by saying this is not a casual request. It is a serious request. I think we need to have it. And I am prepared to work with you and others on your staff to try and interpret the meaning of whatever is produced here so we can decide what can be done.

We are going to have to take this budget down, we are going to have to take your budget down, and I would like to see us do it in a way that makes the most sense.

Chairman DOMENICI. Mr. Secretary, as I understand it, the request is that you do that—actually, I leave that up to you as to whether you feel that, absent direction from the Congress by way of the actual appropriation or budget, whether you feel like you ought to do that at this point or not. You have from time to time given us information, and you will continue, I assume. I do not know in your capacity whether you can do that at this point without it being the official act of the Congress or request of the President, but I will leave that up to you.

Secretary **Weinberger**. Well, it would involve submitting some things with which we violently disagree, and the importance of making that clear is always muted if it comes from the Department. Then someone is apt to wave a piece of paper at me and say, "This came from your own Department." So we would certainly try to be as helpful to you, Mr. Chairman, as we can, and we will continue to present to you what our constitutional duty requires. And that is our recommendations as to what we believe, after our careful examination, both professional and civilian, of what our national security requires.

Senator **Riegle**. Well, Mr. Chairman, I am not quite sure where I am on the request.

Chairman **Domenici**. I think what the Secretary is saying is he will do the best he can to answer your question.

Secretary **Weinberger**. Yes.

Senator **Riegle**. Well, I am still not quite sure where we are. I am making a request as a member of the committee, just as I would be if I were submitting it in writing, and I will be happy to put it in writing, as well.

Chairman **Domenici**. No; I do not think you have to.

Senator **Riegle**. But the point is I would like to have it submitted for the record, and I think we need to have it. I think it would be helpful to us, and I think there would be other members here who would join in the request, if that would be a useful step. I am not sure it is necessary.

Chairman **Domenici**. Mr. Secretary, the request has been made, and obviously, it is a valid request from the standpoint of information that is being sought. I would hope you would do your best to respond, and respond in a way that is consistent with your responsibility and then we, collectively in this committee and otherwise will have to pass judgment on whether we need you back or not.

That is how I see it. Is that fair enough?

Senator **Riegle**. I thank the chairman. I think it is.

[The following was subsequently supplied for the record:]

3 Percent Real Growth Limitation

ANSWER: The President's FY 1986 budget request for the Department of Defense reflects real growth in budget authority of 5.9 percent. However, the requirements contained in that request were not developed on the basis that the resulting total would equal 5.9 percent real growth but, rather, would represent the sum necessary to fund the programs determined necessary to assure adequate levels of defense for this Nation. We have not requested more, or less, than we have determined necessary to guarantee security for the United States and her allies. To suggest that somehow we can impose a 3 percent real growth limitation upon defense requirements implies that we can determine defense funding levels under some other criteria than that necessary to ensure successful mission fulfillment. I cannot subscribe to that notion, and therefore cannot, in good conscience, provide the program reductions requested.

Chairman DOMENICI. Senator Symms?

Senator SYMMS. Thank you very much, Mr. Chairman.

Mr. Secretary and General Vessey, I found this very interesting. The other committees I am on, Public Works and Finance, do not deal greatly with defense questions as does the Budget Committee, so I have stayed all morning to try to enlighten myself as to what some of your problems are, and I think both of you have conducted yourselves very well this morning.

I did have a couple of other questions I would like to ask. I will direct the first one to General Vessey.

It was my understanding, and there is a lot in the press——

Chairman DOMENICI. Senator, I was just wondering if you could submit the questions.

Senator SYMMS. I will be very brief.

Chairman DOMENICI. The Secretary is already late for an appointment, and the chairman is, also. But go ahead.

DIVAD IS A COMBINATION OF WEAPONS

Senator SYMMS. I would do that, but it will just take him a couple of seconds to answer.

There is a lot in the news about the DIVAD. It was my understanding when we designed the DIVAD originally to take a current chassis, the M–48, a current gun, the Twin-40's, and combine those and make a weapon that we could use against aircraft, helicopters, ground vehicles, and personnel. Is that correct?

General VESSEY. That is right, Senator. It was to take the F–16 radar, the Twin-40-millimeter gun, and the M–48 tank chassis, combine them, and try to get in the field quickly an effective, low-level antiaircraft——

Senator SYMMS. OK. I think we are pretty much demonstrating that it is going to work at least somewhat in its antiaircraft role. Is all of the ammunition for the DIVAD proximity fuse ammunition?

General VESSEY. No; it is not.

Senator SYMMS. So will there be some ammunition available for use against personnel, if necessary?

General VESSEY. Yes.

Senator SYMMS. But proximity fuse ammunition will not work in that respect?

General VESSEY. Well, it would, but that is primarily for antiaircraft.

U.S.S.R. DEPLORING ANTIBALLISTIC SYSTEM

Senator SYMMS. The other question is where we will be, Mr. Secretary, if the U.S.S.R. deploys a nationwide antiballistic missile system while we are over here in Congress arguing about whether or not we are going to move forward with the Strategic Defense Initiative.

Secretary WEINBERGER. Well, Senator, they are deploying an antiballistic system. They have one deployed. They are improving it and strengthening it around Moscow, and they are also building radars, which appear to violate the ABM Treaty, which would appear to have a much broader application for the kind of strategic defense that the President has urged us to do through a research program.

Senator Symms. Mr. Chairman, I thank you very much. I have no more questions. I would just say in closing that I appreciate the opportunity to be here at this hearing, and I commend you for it.

APPROVAL OF F–20 SALE TO TAIWANESE URGED

I wanted to make a comment very briefly as we close, with respect to what Senator Andrews said about weapons sales to the Saudis. I believe that our allies, like Israel and others, are a great help to us in those parts of the world because of their defense capabilities. But I find it very difficult to understand how it is that this administration does not sell the F–20, which is a very a good fighter to some of these allies. Mr. Secretary, I would hope you would urge Secretary Shultz to approve the sale of the F-20 to the Taiwanese so they could have an effective system there. That would be like having 10 aircraft carriers in that part of the world, if they had capable equipment, and I wish we would sell it to them.

Chairman Domenici. General Vessey?

ARMED FORCES BEST EVER

General Vessey. I would like to add one thing, Mr. Chairman. I have sat here all morning and listened and did not get to answer many questions. But, I have heard a couple of things asserted from some very respected Senators. I am sorry they are not here now to hear this, but it is my first chance to say it, and I think it is very important to say it for the record. And it happens to be about things that I think I know more about than anyone else in the room.

First, it was asserted that we have no clear idea of how we are going to fight more effectively. I want to tell you that that is baloney. We know exactly how we are going to fight. We have a very clear idea of how we are going to fight, and we have a very clear idea of how we are going to use the things and the people that the Congress has appropriated, and we will do it very well.

The second thing assented was is that there are no choices being made in what we are going to buy. We have a very elaborate procedure for deciding what we are going to ask the Congress to appropriate for us to use on the battlefield. We test it, and we try it out, and we do all sorts of experimenting with it to make sure it works right.

And the third point assented was is that we are not getting value received for what has been put into the defense budget. I just want to tell you that that is baloney, and anybody who goes out and looks at the armed forces of the United States will see that it is baloney. We have got the best Armed Forces we have ever had, and to say that we do not get value received is just pure bunk. Thank you.

Chairman Domenici. Thank you, General.

To the extent that the chairman is responsible for your not having had a chance to answer before, I apologize. I have difficulty sometimes determining whether a Senator is asking a question or giving a speech, ad consequently, I do not always ask for you all to counter with a speech. Next time you are before my committee, you do so; if you feel an urge to respond, respond, even if it is a speech instead of a question. I will be glad to accommodate.

Thank you, both of you, very much. We will continue to work together and do the very best we can.

Secretary WEINBERGER. Thank you, Mr. Chairman.

[Whereupon, at 12:40 p.m., the committee was adjourned.]

WRITTEN QUESTIONS FROM SENATOR HOLLINGS TO SECRETARY WEINBERGER AND THE RESPONSES

ACTIVE AND RESERVE FORCE LEVELS

Question: Could you please provide current and projected force levels (active and reserve forces) by military service -- through 1995?

Answer: The current (FY 1984) and projected (FY 1985- FY 1990) force levels (active and reserve forces) by military service contained in the FY 1986 President's Budget are as follows:

Question: What percentage of active duty male first term enlistees fail to complete their 3-year term? List by military service.

Answer: Overall, attrition for the FY81 entering cohort (the most recent cohort to complete 36 months of service) decreased below that experienced with the FY80 and FY79 cohorts. The attrition percentages for the most recent three cohorts by service, were:

	Entry Cohort		
	FY79	FY80	FY81
Army	31.0	35.8	30.6
Navy	26.6	26.7	27.1
Marine Corps	30.1	31.1	32.8
Air Force	27.0	26.0	25.6
Overall	29.0	31.3	28.8

Retention Rates

Question: What are the first and second term reenlistment rates by military service?

Answer: Reenlistment rates for the first quarter of FY85 are as follows:

	First Term	Second-Term
Army	44.3	77.3
Navy	57.0	65.4
Marine Corps	40.7	76.6
Air Force	55.8	79.5
DoD	49.9	74.0

Senator Hollings: Mr. Secretary, what are Black and other minority composition figures of the total enlisted force?

Answer: As of 30 September 1984, there were 530,582 minority group enlisted members on active duty in DoD. By Service totals follow:

	Black	Hispanic	Other	Total
Army	203,487	26,704	24,808	254,999
Navy	64,107	17,641	28,747	110,495
Marines	35,027	8,616	3,919	47,562
Air Force	81,672	18,916	16,938	117,526

QUESTION: Of the nonprior service accessions from FY 1980-1985, what percentage--by service and year--are black and other minority (listed separately)?

ANSWER: Shown below ~~are~~ is the racial composition of active duty nonprior service accessions by Service for Fiscal Years 1980-1984.

Racial Composition of Active Duty
Nonprior Service Accessions
Percent Black and Other by Fiscal Year

	Fiscal Year				
	80	81	82	83	84
Black					
Army	29.9	27.3	24.6	22.0	22.6
Navy	13.4	12.5	13.4	14.1	14.8
USAF	15.0	14.1	15.5	14.3	13.6
USMC	23.3	17.7	17.5	17.1	17.5
DoD	22.1	18.9	18.8	17.9	18.3
Other					
Army	5.1	4.5	4.4	4.1	4.5
Navy	3.4	3.6	3.6	4.4	5.4
USAF	2.9	3.4	3.6	3.8	4.4
USMC	4.6	4.7	4.6	4.8	5.6
DoD	4.2	4.0	4.0	4.3	4.8

Composition of Women in the Guard and Reserve at the end of FY 84 is as follows:

COMPONENT	ENLISTED		OFFICER		TOTAL	
	#	%	#	%	#	%
ARMY NAT'L GUARD	20289	5.2	2072	5.0	22361	5.2
ARMY RESERVE	37704	17.0	6949	13.1	44653	16.2
NAVY RESERVE	9261	9.4	1506	6.7	10767	8.9
MARINE CORPS RESERVE	1345	3.6	101	3.2	1446	3.6
AIR FORCE NAT'L GUARD	10490	11.4	821	6.4	11311	10.8
AIR RESERVE	9594	17.3	2053	13.7	11647	16.6
DOD TOTAL	88683	9.9	13502	9.1	1021185	9.8

Composition of minorities in the Guard and Reserve as of the end of FY 84 is as follows:

	ARMY NAT'L GUARD	ARMY RESERVE	NAVY RESERVE	MARINE RESERVE	AIR NAT'L GUARD	AIR FORCE RESERVE	DOD
ENLISTED	82666	78863	17257	9626	10965	12320	211703
OFFICER	2549	7501	2587	153	645	874	14309
TOTAL	85215	86364	19844	9779	11610	13194	226012
% OF TOTAL FORCE	19.6	31.4	16.5	24	8.7	18.8	21.6

COMBAT SKILLS MINORITY COMPOSITION

Question: What are the black and other minority composition figures of the total active enlisted forces? By Service? By combat skills?

Answer: Infantry, Gun Crews, and Seamanship Specialists is a one-digit DoD occupational group comprised of 14 three-digit occupational groups across the Services. Using this one-digit group to arrive at the number of blacks and other minority groups in the combat skills area, the following are the figures as of 30 September 1984.

COMBAT SKILLS

	Black	%	Spanish	%	Other Min.	%
Army	44,703	26.9	7,372	4.4	6,400	3.9
Navy	2,691	14.4	685	3.7	618	3.3
M.C.	8,110	20.4	1,918	4.8	976	2.4
A.F.	5,204	15.2	1,164	3.4	927	2.7
TOTAL	60,708	23.5	11,139	4.3	8,921	3.5

QUESTION: What are the current and historical non-prior service accession levels and Delayed Entry Program levels for FY 1982-1985 and projected for FY 86? List by military service, by active and reserve components, by race and sex by mental category.

ANSWER: Shown below are tables that reflect the historical nonprior service accession levels for fiscal years 1982-1984 by service, by race and sex, and by mental category. In all cases the numbers are rounded to the nearest hundred. As a matter of practice, OSD does not collect and maintain information on the composition of the Delayed Entry Program (DEP) other than aggregate size by service nor do we project DEP size. Questions regarding the DEP composition should be directed to the services. We have, however, provided the historical size of the DEP as of the beginning of the fiscal year for 1982-1985. Also shown are projected total active duty accession levels for FY 1985 and 1986.

ACTIVE DUTY NONPRIOR SERVICE ENLISTED ACCESSSIONS

Total Number (Thousands)

	Fiscal Year 1982			Fiscal Year 1983			Fiscal Year 1984		
	Nonprior Service			Nonprior Service			Nonprior Service		
Service	Male	Female	Total	Male	Female	Total	Male	Female	Total
Army	105.2	15.2	120.4	116.2	16.5	132.7	114.5	17.2	131.7
Navy	71.4	8.4	79.8	66.5	8.5	75.0	70.1	7.9	77.9
USMC	35.7	2.3	38.1	34.9	2.0	36.9	38.0	2.2	40.2
USAF	58.8	8.7	67.5	51.6	8.9	60.5	51.2	8.9	60.0
DoD	271.1	34.6	305.7	269.2	35.9	305.1	273.7	36.1	309.8

AFQT CATEGORY I THRU III NPS ACCESSIONS

Total Number (Thousands)

	Fiscal Year 1982			Fiscal Year 1983			Fiscal Year 1984		
Service	Male	Female	Total	Male	Female	Total	Male	Female	Total
Army	82.2	15.0	97.2	100.3	16.5	116.8	101.0	17.2	118.2
Navy	63.4	8.0	71.4	60.8	8.2	69.0	64.3	7.7	72.0
USMC	32.5	2.3	34.8	32.7	2.0	34.7	36.6	2.2	38.8
USAF	54.9	8.6	63.5	50.3	8.8	59.1	50.5	8.8	59.4
DoD	233.0	33.9	266.9	244.0	35.5	279.5	252.4	35.9	288.4

RACIAL DISTRIBUTION OF ACTIVE ENLISTED NPS ACCESSIONS

Total Number (Thousands)

Service	Fiscal Year 1982			Fiscal Year 1983			Fiscal Year 1984		
	White	Black	Other	White	Black	Other	White	Black	Other
Army	85.5	29.6	5.3	98.1	29.2	5.5	95.9	29.8	5.9
Navy	66.2	10.7	2.8	61.0	10.6	3.3	62.2	11.5	4.2
USMC	29.6	6.7	1.8	28.8	6.3	1.8	31.0	7.0	2.2
USAF	54.9	10.5	2.4	49.5	8.6	2.3	49.2	8.2	2.6
DoD	236.0	57.4	12.3	237.5	54.7	12.9	238.3	56.6	15.0

TOTAL ACTIVE DUTY ENLISTED ACCESSION OBJECTIVES

Total Number (Thousands)

Service	Fiscal Year 1985	Fiscal Year 1986
Army	139.8	146.4
Navy	87.6	94.3
Marine Corps	39.0	35.3
Air Force	67.0	69.8
DoD	333.4	345.8

DELAYED ENTRY PROGRAM SIZE

AT BEGINNING OF FISCAL YEAR

Total Number (Thousands)

Service	FY 1982	FY 1983	FY 1984	FY 1985
Army	31.8	40.5	49.6	41.3
Navy	22.8	37.1	39.2	35.9
Marine Corps	11.0	18.4	21.7	20.1
Air Force	35.1	29.9	29.2	31.6
DoD	100.7	126.0	139.6	128.9

SELECTED RESERVE NONPRIOR SERVICE RECRUITING RESULTS FOR FY 1982-FY 1984 AND OBJECTIVES FOR FY 1985 AND FY 1986

	FY 1982 Accessions	FY 1983 Accessions	FY 1984 Accessions	FY 1985 Objectives	FY 1986 Objectives
NonPrior Service					
ARNG	51,600	45,600	46,200	48,300 1/	54,100
USAR	34,800	34,900	28,300	32,200	37,500
USNR	2,100	2,000	10,000	10,000	10,000
USMCR	8,900	8,300	8,700	9,000	8,800
ANG	5,500	5,100	5,200	4,700	5,100
USAFR	3,100	3,500	2,700	3,800	3,700
DoD	106,000	99,400	101,100	108,000	119,200
Selected Reserve Black Enlistments					
ARNG	10,500	8,100	9,900	2/	
USAR	8,300	8,700	7,600		
USNR	300	200	1,600		
USMCR	1,600	1,400	1,500		
ANG	500	500	500		
USAFR	700	1,000	800		
DoD	21,900	19,900	21,900		
Selected Reserve Female Enlistments					
ARNG	6,000	3,300	2,800	3/	
USAR	9,700	7,100	5,700		
USNR	100	-0-	1,300		
USMCR	200	200	200		
ANG	1,500	1,300	1,400		
USAFR	1,100	1,200	1,000		
DoD	18,600	13,100	12,400		
AFQT Category I-III Accessions					
ARNG	45,100	42,400	43,000	4/	
USAR	30,000	29,700	24,900		
USNR	1,900	1,800	6,300		
USMCR	8,300	7,900	8,500		
ANG	5,500	5,100	5,200		
USAFR	3,000	3,500	2,700		
DoD	93,800	90,400	90,600		

1/ Objectives from FY 1986 President's Budget.

2/ The only race reported separately are Blacks. There are no recruiting objectives by race.

3/ The Reserve Components generally do not report objectives by gender to OSD.

4/ The Reserve Components generally do not report AFQT objectives to OSD.

QUESTION: What level of Category III accessions scored below the 50 percentile on the AFQT in FY 1980-1985?

ANSWER: Shown below are the total active duty nonprior service accession levels for FY 1980 through 1984 by mental category. Individuals in Categories IIIB and IV scored below the 50th percentile on the Armed Forces Qualification Test (AFQT).

Nonprior Service (NPS) Accessions by AFQT Category
Fiscal Years 1980-1984

	1980	1981	1982	1983	1984
NPS Accessions	359,790	327,757	305,732	304,893	309,816
Percent I&II	26.5	33.6	37	41.1	41.2
Percent IIIA	18.3	21.4	22.8	24.7	25.7
Percent IIIB	23.9	27.2	27.5	25.8	26.2
Percent IV	31.2	17.9	12.7	8.4	6.9

Critical Enlisted Skills Shortages

Question: In FY 1983, the Joint Chiefs identified shortages in enlisted critical skill billets (see JCS posture statement for FY 1983). How have these shortages changed in the past three years? What is the present condition regarding shortages in NCO's in combat arms, military intelligence, and electronic warfare?

Answer: Generally, the shortage conditions have been alleviated in most categories compared to September 1981 which was the "as of" date for the shortages identified in the JCS posture statement. The Army, which was identified in the statement as having NCO shortages in combat arms, military intelligence and electronic warfare, reports that the shortages in combat arms and electronic warfare have been eliminated. Shortages persist in the military intelligence area because increases in inventory have not kept pace with the more rapid growth in requirements. The Army has focused management actions including use of the selective reenlistment bonus in an effort to correct shortages in the intelligence area.

Retention of Pilots

Question: What are the retention rates for Air Force and Navy pilots for FY 1982-85 and what level of shortfalls presently exist?

Answer: The Air Force pilot retention rates using the cumulative continuation rate methodology, i.e., percent of officers ending their initial obligation who would complete their 11th year if current retention rates remain the same, are as follows:

FY	1982	1983	1984	1985(1st qtr)
Retention (%)	68	78	72	68

The Air Force presently has no shortfalls in the pilot community. However, if the trend of declining retention rates continues, the Air Force will experience pilot shortfalls initially in strategic airlift and training and in all pilot communities by the end of the current FYDP.

The Navy pilot retention rates using minimum service requirements (MSR) methodology for FY 1982-85 follows:

FY	1982	1983	1984	1985*
Retention (%)	49	58	56	53

* Projected to end FY85.

The Navy's pilot shortfall at end of FY84 was 995 mid-grade (0-3 - 0-4) pilots.

QUESTION: In March 1982, the OASD (Manpower, Reserve Affairs and Logistics) published the "Profile of American Youth"--presenting data on the 1980 nationwide administration of the Armed Services Vocational Aptitude Battery. Could you please provide an update of Table B-1 on page 69 of the publication to include data for the years 1982-1984?

ANSWER: Shown below is the distribution of nonprior service males by AFQT category for fiscal years 1982-1984.

Distribution of Male Nonprior Service Accessions
by Armed Forces Qualification Test(AFQT) Category and Service
Fiscal Years 1982-1984

		Percent			
		I	II	III	IV
Army	1982	2.9	28.3	47.0	21.8
	1983	3.4	32.1	50.8	13.7
	1984	3.4	33.2	51.7	11.7
Navy	1982	3.6	36.1	49.2	11.2
	1983	4.2	40.4	46.8	8.6
	1984	4.2	39.5	48.1	8.2
Marine Corps	1982	2.1	30.9	57.8	9.2
	1983	2.4	33.7	57.6	6.3
	1984	2.5	32.4	61.3	3.8
Air Force	1982	3.3	40.3	49.8	6.6
	1983	4.4	44.3	48.6	2.6
	1984	5.0	45.5	48.4	1.2
DoD	1982	3.1	33.3	49.6	14.1
	1983	3.7	36.7	50.3	9.4
	1984	3.8	37.0	51.5	7.8

Drug and Alcohol Programs

Senator Hollings. What are the costs of the programs (by Service) for drug treatment? How many First and Second Term enlistees leave the service prior to their commitment date due to drug/alcohol problems -- list by Service? Provide an estimate for not only drug program costs, but also costs to the military units for lost time and disciplinary activities. Please provide the information for 1981-85 and include drug/alcohol as applicable.

Secretary Weinberger. The following costs ($M) for drug and alcohol treatment and rehabilitation by FY were:

	81	82	83	84	85
Army	20.7	22.1	24.9	23.5	24.9
Navy	19.4	27.0	26.2	26.4	34.2
AF	24.8	27.4	36.5	41.3	52.2

The number of enlistees discharged for drug and alcohol abuse related problems for First Term and Career were:

	81		82		83		84	
	First	Career	First	Career	First	Career	First	Career
Army	2009	910	2096	1341	5723	1416	4162	1127
Navy	585	59	2354	68	5349	485	6184	1271
AF	1502	94	2556	370	2333	692	2940	1338

The total program costs ($M) by FY were:

	81	82	83	84	85
Army	44.7	47.4	52.2	49.9	51.7
Navy	26.1	28.7	59.8	68.2	63.6
AF	30.1	33.2	39.2	50.2	63.6

Estimates for the cost ($M) of lost time because of Treatment and Disciplinary Actions by FY were:

	81		82		83		84	
	T	DA	T	DA	T	DA	T	DA
Army	6.2	32.0	7.0	33.7	9.8	35.5	7.6	37.4
Navy	Estimates not available							
AF	2.1	3.9	2.3	4.4	3.0	4.6	2.8	4.7

Senator Hollings. Please describe what drug testing is applied when recruits sign up -- by each Service and the MEPS.

Secretary Weinberger. The Military Entrance Processing Stations do not use urinalysis testing since individuals at the MEPS are considered to be civilians. Rejections are based on the results of the physical examinations and information provided on a questionnaire. The Navy and Marine Corps test recruits upon their arrival at boot camp while Army and Air Force recruits are incorporated into their normal testing programs after recruit training.

MANPOWER ESTIMATES

Senator Hollings: What are the FY 1985 (projected) and FY 1986 (requested) military and civilian manning levels (list totals for each) for the following organizations? Where relevant, identify each total (by military and by civilian) for Headquarters organizations and for field activities.

Answer: Total manpower estimates (civilian and military) are provided below for fiscal year 1985 and fiscal year 1986.

	FY 1985 Projected			FY 1986 Requested		
Component	Civilian*	Military	Total	Civilian*	Military	Total
OSD1/	1,313	452	1,765	1,350	478	1,828
WHS	426	97	523	426	97	523
DLSA	59	0	59	59	0	59
OJCS	343	1,198	1,541	343	1,217	1,560
CMA	49	0	49	49	0	49
AFIS	138	65	203	138	65	203
DARPA2/	125	26	151	127	31	158
CHAMPUS	222	7	229	222	7	229
TRIMIS	62	34	96	62	34	96
OEA	30	3	33	30	3	33
DoDDS	12,638	0	12,638	12,638	0	12,638
OIG	1,081	38	1,119	1,132	40	1,172
DAVA	269	12	281	268	21	289
Comm/Intell	5,115	3,968	9,083	5,469	4,181	9,650
DCAA	4,632	0	4.632	4,854	0	4,854
DIS	3,693	0	3,693	3,746	0	3,746
DLA	50,283	1,043	51,326	51,401	1,043	52,444
DMA	8,845	471	9,316	9,149	475	9,624
DNA	742	539	1,281	796	563	1,359
USUHS	810	794	1,604	810	789	1,599
JTCCC	212	166	378	212	169	381
DSAA	108	30	138	108	30	138
SDIO	65	40	105	80	45	125
TOTAL	91,260	8,983	100,243	93,469	9,288	102,757

* Includes Direct and Indirect Hires

1/ Includes two percent flexibility above budget of 1,730

2/ Reflects spaces transferred to SDIO after budget submission

MANPOWER ESTIMATES

Manpower estimates (civilian and military) are provided below for Management Headquarters activities:

Management Headquarters

	FY 1985 Projected			FY 1986 Estimates		
Component	Civilian*	Military	Total	Civilian*	Military	Total
OSD[1]/	1,313	452	1,765	1,350	478	1,828
WHS	398	97	495	398	97	495
DLSA	35	0	35	35	0	35
AFIS	20	8	28	23	9	32
DARPA[2]/	125	26	151	127	31	158
DoDDS	100	0	100	100	0	100
OIG	79	1	80	79	1	80
DAVA	54	8	62	54	8	62
Comm/Intell	196	404	600	197	417	614
DCAA	108	0	108	123	0	123
DIS	185	0	185	185	0	185
DLA	759	81	840	759	81	840
DMA	137	34	171	137	34	171
DNA	148	81	229	166	82	248
DSAA	108	30	138	105	30	135
Total	3,765	1,222	4,987	3,838	1,268	5,106

* Includes direct and indirect hires

1/ Includes two percent flexibility above budget of 1,730

2/ Reflects spaces transferred to SDIO after budget submission

MANPOWER ESTIMATES

Senator Hollings: What are the FY 85 (projected) and FY 86 (requested) military and civilian manning levels (list totals for each) for the Miltiary Service Secretariat organizations?

Answer: Manpower levels (civilian and military) are provided below for the Military Service Secretariat organizations:

Secretariat Organizations

	FY 1985			FY 1986		
	Civilian	Military	Total	Civilian	Military	Total
Army	251	135	386	252	136	388
Navy	219	98	317*	219	98	317 *
Air Force	166	134	300	171	134	305
Total	636	367	1,003	642	368	1,010

* Includes only those personnel in direct support of the Secretary.

Senator Hollings: What are the FY 85 (projected) and FY 86 (requested) military and civilian manning levels (list totals for each) for the Military Service Headquarters organizations in the Pentagon?

Answer: Manpower levels (civilian and military) are provided below for the Chiefs of Staff of the Services:

Chiefs of Staff

	FY 1985			FY 1986		
	Civilian	Military	Total	Civilian	Military	Total
Army	1,792	1,419	3,211	1,802	1,432	3,234
Navy	834	1,685	2,519	831	1,690	2,521
Air Force	1,139	1,630	2,769	1,170	1,630	2,800
Total	3,765	4,734	8,499	3,803	4,752	8,555

JOINT COMMANDS

Senator Hollings: What Joint Commands exist in the DOD? When was each Joint Command established? Provide a brief mission statement for each.

General Vessey: Following are the missions and dates of establishment for the Joint Commands in the Defense Department:

US Pacific Command. Established 1 January 1947. Mission: To maintain security of the Pacific Command and defend the United States against attack through the Pacific Ocean; to support and advance the national policies and interests of the United States and discharge US military responsibility in the Pacific, Far East, South East and South Asia, and the Indian Ocean; to prepare plans, conduct operations and coordinate activities of the forces of the Pacific Command in consonance with directives of higher authority.

US Atlantic Command. Established 1 December 1947. Mission: To provide security of the United States and its possessions and bases from hostile attack; provide operational control of forces assigned; direct subordinate commands to ensure accomplishment of assigned missions and tasks; communicate with Chiefs of Services on uni-Service matters as appropriate, and the JCS on matters to include the preparation of strategic and logistic plans and strategic and operational direction of assigned forces.

US European Command. Established 1 August 1952. Mission: To provide combat-ready forces to support US commitments to the NATO Alliance. This includes war planning for both conventional and nuclear operations. Provide for unilateral and multilateral contingency planning; coordinate theatre-wide intelligence activities; direct and supervise security assistance programs; plan for and execute, as appropriate, the protection and evacuation of US non-combatants in area of responsibility; and provide humanitarian relief in event of natural disaster.

US Southern Command. Established 6 June 1963. Mission: Coordinate regional military activities to enhance hemispheric security through foreign internal defense and development; exercise operational command over US forces on the land mass of South America and Central America less Mexico; prepare strategic assessments and contingency plans, and conduct training or operations as directed by the Joint Chiefs of Staff; support and assist US country teams in area of responsibility; monitor security assistance programs in South and Central America, including Mexico; and provide for the defense of the Panama Canal and other Defense Department obligations per the Panama Canal Treaty of 1977.

US Readiness Command. Established 1 January 1972. Mission: Provide a general reserve of combat-ready forces to reinforce other unified and specified commands worldwide; provide for the joint training of forces assigned; provide contingency planning, a joint task force headquarters, and forces for contingency operations worldwide; and provide contingency planning, a joint task force headquarters, and forces for the land defense of North America and military support of civil defense.

US Central Command. Established 1 January 1983. Mission: To achieve US national policy objectives in Southeast Asia, the Persian Gulf, and the Horn of Africa; to prepare contingency plans; exercise operational command of US forces in area of responsibility; conduct joint exercises involving US and regional forces; and administer the regional security assistance programs.

JOINT COMMANDS

Senator Hollings: What are the personnel levels in each Joint Command (list separately both military (by each Military Service) and civilian personnel levels)? What are the military officer levels -- by grade and Military Service -- in each Command?

General Vessey: The authorized personnel levels by Service in each of the Joint Commands, with the officers broken out by grade, are:

USPACOM:

		USA	USN	USAF	USMC	TOTAL
OFFICER	GEN		1			1
	LTG	1				1
	MG	1	2	2	1	6
	BG	1		2		3
	COL	17	22	18	3	60
	LTC	52	39	41	10	142
	MAJ	25	27	38	9	99
	CPT	6	6	14		26
	LT		1			1
	WO	1	1			2
SUBTOTAL		104	99	116	23	342
ENLISTED		45	125	56	9	235
CIVILIAN			110			110
TOTAL		149	334	172	32	687

USLANTCOM:

		USA	USN	USAF	USMC	TOTAL
OFFICER	GEN		1*			
	MG		1		1	2
	COL	1	21	6	1	29
	LTC	22	39	10	6	77
	MAJ	8	22	12	5	47
	CPT	4	23	5		32
	LT		2			2
	WO		4			4
SUBTOTAL		35	112	33	13	193
ENLISTED		11	123	14	3	151
CIVILIAN			62			62
TOTAL		46	297	47	16	406

* CINCLANTFLT dual-hatted. Not included in USLANTCOM total.

USEUCOM:

		USA	USN	USAF	USMC	TOTAL
OFFICER	GEN	1*		1		1
	LTG	1	1			2
	MG	1	1	2		4
	BG	1	11	1	1	14
	COL	20	27	15	3	65
	LTC	72	25	75	14	186
	MAJ	30	1	39	1	71
	CPT	5		4	1	10
	WO	2				2
SUBTOTAL		132	66	137	20	355
ENLISTED		53	23	66	5	147
CIVILIAN		132				132
TOTAL		317	89	203	25	634

USSOUTHCOM:

		USA	USN	USAF	USMC	TOTAL
OFFICER	GEN	1				1
	MG			1		1
	COL	8	2	6	2	18
	LTC	21	5	10	5	41
	MAJ	37	14	24	5	80
	CPT	14	6	10	1	31
	WO	2				2
SUBTOTAL		83	27	51	13	174
ENLISTED		65	20	26	1	112
CIVILIAN		43				43
TOTAL		191	47	77	14	329

* SACEUR dual-hatted as CINCEUR. Not included in USEUCOM total.

USREDCOM:

		USA	USN	USAF	USMC	TOTAL
OFFICER	GEN	1				1
	MG	1		1		2
	BG	1		2		3
	COL	17		12		29
	LTC	38	7	42	3	90
	MAJ	28	3	23	3	57
	CPT		4	1	1	6
	WO	5				5
SUBTOTAL		91	14	81	7	193
ENLISTED		55	13	78	5	151
CIVILIAN				82		82
TOTAL		146	27	241	12	426

USCENTCOM:

		USA	USN	USAF	USMC	TOTAL
OFFICER	GEN	1				1
	MG			1		1
	BG	2	1	2	2	7
	COL	21	6	15	6	48
	LTC	60	25	59	21	165
	MAJ	57	26	51	26	160
	CPT	4	6	7	12	29
	LT		1	1	1	3
	WO	5	1		1	7
SUBTOTAL		150	66	136	69	421
ENLISTED		116	57	116	43	332
CIVILIAN				19		19
TOTAL		266	123	271	112	772

WRITTEN QUESTIONS FROM SENATOR KASTEN TO SECRETARY WEINBERGER AND THE RESPONSES

Defense Management

Senator Kasten: The Pentagon continues to be plagued by a problem: the apparent high cost of spare parts. Now you and I both know that many of the worst examples in the press are ones DoD itself discovered. We know that in many cases, high prices reflect the fact that sometimes DoD buys replacement parts in small quantities, so that economies of scale cannot be taken advantage of. And we know that in many cases, high prices represent an accounting quirk that allows a contractor to spread his legitimate overhead cost over all the parts to be supplied during the life of the contract, regardless of the parts' cost to begin with.

Given that there are often very good answers for the price that the Pentagon pays for spare parts, I have a more fundamental question. Why in the world does the Pentagon write contracts that allow a Defense contractor to provide parts that could be better provided by a non-Defense contractor? Why does the Department buy toilet seats, screwdrivers, or claw hammers from a Defense contractor? Now I'm not talking about the parts that have to meet rigid specifications. Those have to be done by the Defense contractor. What has been done to "breakout" non-specialized parts?

Answer: Our "breakout" efforts proved extremely beneficial in 1984. We screened over 211,000 items and determined that approximately 48,000 of them could be purchased competitively and 57,000 items were broken out from the prime contractor to the actual manufacturer. In aggregate, this screening process resulted in estimated savings and cost avoidances in excess of $500 million. As resources materialize, we intend to expand our "breakout" efforts, eventually completing the screening process of all active items.

Grace Commission

Answer:

Revise Commissary Operations

The Grace Commission makes two separate, alternative proposals to revise commissary operations. One proposal does not question the need for commissaries but rather whether the stores should be operated in-house versus the private sector. The report claims that the private sector can operate the stores at no cost to the government, provide the same levels of service and savings to the service member and be able to generate a small profit. This supposition lacks a degree of logic and is impractical.

Commissaries sell merchandise at cost in facilities constructed using surcharge funds and operated by appropriated fund employees. The estimated DoD cost savings would accrue through the termination of the 17,400 appropriated fund employees currently employed to run commissaries. For the private sector to claim that they can absorb the personnel operating costs and generate a profit while selling goods at cost is unrealistic.

The private sector would have to run commissary stores in the same fashion they currently operate comparable commercial outlets. In order to operate the commissaries at no cost to the government, a private sector firm would have to generate revenues to pay personnel and generate a profit. The only possible way to accomplish this is to raise the cost of goods thereby nullifying the provision in the proposal that the service member would retain the existing levels of service and savings.

The other proposal calls for DoD to close all military commissaries in the Continental United States, and allow the post exchange system to operate a full-line food facility where adequate commercial food stores do not exist. The DoD has consistently supported the need for and value of commissaries and is opposed to the proposal to close commissaries in the Continental United States.

Shift CHAMPUS Users to Military Health Care Facilities

The Department shares many of the concerns expressed by the Grace Commission regarding CHAMPUS expenditures and maximum utilization of military medical treatment facilities. We continue to be committed to containing costs, both in CHAMPUS and in the everyday operations of our direct care facilities. However, to totally eliminate CHAMPUS within catchment areas, as the Grace Commission recommends, fails to recognize the physical limitations of some of our smaller and less-utilized facilities. The Grace Commission assumes that in three years, $1.2 billion in CHAMPUS workload could be accomplished in the direct care system at zero cost. The recommendation could only be implemented by major facility expansion and additional resources acquired at great cost to the government. The Department agrees that military treatment facilities can and must absorb more CHAMPUS workload. We are aggressively pursuing initiatives already underway to meet this objective by reducing the number of certificates of nonavailability issued.

Recover Medical Care Costs from Private Health Insurers

The Department fully supports this Grace Commission recommendation. Many individuals who are entitled to receive care in military treatment facilities are also covered by private health insurance policies which they have paid for or which have been paid for by their employers. Military medical treatment facilities do not presently seek reimbursement from these insurance carriers primarily because of exclusionary clauses and deductible requirements. The Department is proposing draft legislation that would provide for the Secretary of Defense to bill these private insurance companies and remove the principle obstacles to effective military treatment facility reimbursement collection. We presently estimate the inability of the DoD to collect a substancial portion of these funds represents a loss to the government of more than $250 million per year.

Remove Restrictions on Silver Stockpile Sales

The stockpile silver which is referred to is part of the total stockpile inventory which is managed by the General Services Administration (GSA). An authorization by the Congress to sell $200 million of excess silver in the strategic and critical material stockpile will provide the needed revenue for the stockpile transaction fund. This fund is used by GSA to purchase other stockpile materials which are deficit of the established national security goals. Therefore, the revenue from the sale of excess silver will provide funds for purchasing deficit materials and eliminates the need for new appropriations.

Reduce Progress Payments for DoD

With respect to progress payment reductions, neither the Congressional Budget Office (CBO) nor the General Accounting Office (GAO) believed that the budgetary impact of this proposal was precisely measurable. The CBO estimated outlay savings of $6.2 billion was qualified to the extent that several important offsetting factors were not considered. For example, in the joint CBO/GAO report, the CBO observed that the Grace Commission did not fully consider the possible increases in future contract prices that would be sought by Defense contractors if contract financing provisions were reduced. The CBO concluded, "Because the outcome of all these factors cannot be predicted, it is not possible to estimate their impact on the PPSSCC (Grace Commission) proposals" (parenthesis added). The joint CBO/GAO report further stated, "GAO does not believe that the savings estimated are realistic."

Nevertheless, DoD has already undertaken action on the Grace Commission's recommendation concerning progress payments. An Acquisition Policy Study was initiated by the Deputy Secretary of Defense on December 2, 1983. This study, called the Defense Financial and Investment Review (DFAIR), will examine the interrelationships between DoD's contract pricing, financing, and profit policies. DFAIR has been staffed with a joint Service Working Group of eight members and will involve active participation from several governmental and industry activities. The final report which is due May 31, 1985, will form the basis for setting the DoD policy on contract financing.

MILITARY RETIREMENT

Question: Mr. Secretary, two days ago, David Stockman referred to the military pension system as a "scandal." We all know that military duty is not the same as a civilian job, involving as it does frequent separations from family, long hours, and the opportunity to be shot at every now and then. A decent pension is an important incentive to keep good people in the service. But the present system is extremely expensive, and encourages people to leave when their 20 years are up. In the early seventies, there were several proposals floating around that would have revamped the retirement system without penalizing those who were already in the service. It provided for a transition from the present system to a less costly one, which also encouraged people in the service to stay for 30 years instead of 20. Are you looking at any such plans at the present time?

Answer: There were several problems with previous studies that purported to encourage people to stay to 30 years instead of 20 years of service. The lifetime cost (combined active and post-service compensation) to the government for a typical 30 year retiree vs. a typical 20 year retiree is greater, not less. Higher active duty costs plus higher rates of post service compensation more than offset the shorter period on the retired rolls for the 30 year retiree. The only way a 30 year system would be less costly would be if benefits were reduced. Previous studies in fact achieved savings through reducing pre-30 years of service retirement benefits. What most of these studies failed to assess was the impact such reductions would have on the force. The Fifth Quadrennial Review of Military Compensation (5th QRMC) did what these previous studies failed to do. It conclusively showed that such reductions would severely reduce the career force inventory—less incentive to go to 20 years of service (only 13 out of 100 entrants reach that point under the current system) let alone 30 years of service—unless benefits are restored in another form.

Finally, the 5th QRMC found that the current system is fulfilling the purposes for which it was designed—to maintain young, vigorous and mission-ready forces; to provide a measure of post-service financial security in order to attract and retain the kind of people we need; and to support a base of experienced personnel. The current system provides the proper balance we need in youth and experience. Moving toward a 30 year retirement system would superannuate the force and be counterproductive to our needs. The 5th QRMC suggested four alternatives that could reduce retirement costs if accepted as proposed. These alternatives were based on reducing annuities and offsetting the reduction with discounted lump-sum payments up front. The potential harmful impacts on readiness if any of the alternatives were not adopted in total, and the potential instability of economic assumptions used to estimate savings, led us to

MILITARY RETIREMENT

recommend no change at this time. We believe this is prudent in view of uncertainties in pay, COLA, and other entitlements which will be addressed by the Congress in light of current fiscal realities. We must protect the hard-won gains we have made in strengthening military personnel readiness, especially in the face of declining youth cohorts and unemployment rates. A wrong signal at this time could cause a hemorrhage of talent which we would have to pay dearly to rebuild.

NATIONAL SECURITY

TUESDAY, FEBRUARY 19, 1985

U.S. Senate,
Committee on the Budget,
Washington, DC.

The committee met, pursuant to notice, at 10:07 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Boschwitz, Grassley, Kasten, Quayle, Johnston, and Sasser.

Staff present: Stephen Bell, staff director; Charles Flickner, senior analyst for international security; and Paul Heilig, analyst for national defense.

For the minority: Richard N. Brandon, staff director; Douglas Olin, senior analyst for national security affairs and technology; and Doug Cook, senior analyst for defense.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman Domenici. The committee will please come to order.

Today we are going to hear from a panel of outside defense experts—Dr. Edward Luttwak of Georgetown University Center for Strategic and International Studies; Dr. William Kaufmann of Harvard University, Kennedy School of Government and the Brookings Institution, and Richard Stubbing of Duke University. Might I say to all three of you, welcome to the Budget Committee.

Gentlemen, as you know, we have heard from Secretary Weinberger and from Budget Director Stockman. Both have made strong cases that it will be very difficult to make major reductions in the defense budget, at least in the first year, and one says over 3, and Stockman says you cannot do much in the first year, since it is the smallest real growth increase the President has asked for since he has been in office. On the other hand, the overall defense budget in real terms is the largest since the height of the Korean war. It is even larger than at the peak of the Vietnam war, when we had an army twice the size of today's army.

Many of us have called for significant reductions in the defense budget and see those reductions as integral to any comprehensive budget reduction package. We have asked each of you to be here because you have written about a number of issues which you feel could make for more effective, and in many cases, a less costly defense.

Dr. Kaufmann, your testimony contains a very specific list of budgetary recommendations, including the cancellation of a number of systems.

Dr. Luttwak, you are calling for revision of the 1947 National Security Act, especially as it relates to the Joint Chiefs.

I look forward to hearing more about these proposals and hope that each of you can be as specific about how to implement these ideas as possible. Many good proposals have been blunted by the bureaucracy in the process of implementation. We all have learned to live with that, not only in defense, but in many areas of Government. Nonetheless, it is obvious that there is a growing consensus that we must do something about the deficits and that defense must join in that effort. So I look forward to your testimony, and hopefully, we will have a number of Senators in and out who will ask questions with regard to your testimony and your expertise.

Now I would be pleased to yield to Senator Sasser if he has any opening remarks.

OPENING STATEMENT OF SENATOR SASSER

Senator **Sasser**. Thank you very much, Mr. Chairman.

I want to welcome these distinguished witnesses before the committee this morning and say that once again, this committee is charged with the responsibility of making very difficult decisions. On one hand, we must meet the challenge of reducing a string of Federal deficits which hover around the $200 billion mark. But on the other hand, we are charged with selecting a prudent mix of spending policies which will meet the essential needs of the American people. On the point of doing something about the $200 billion deficits, there is no disagreement. But on the point as to how we prudently select the spending policies, there is widespread disagreement.

In all discussions of spending policies, a constantly recurring theme being sounded is a call for reduced defense expenditures. Indeed, over the past 4 years, we have embarked on an unprecedented peacetime defense buildup, as the chairman just alluded to, and over the past 4 years, we have expended some $1.2 trillion for defense needs.

Now the President's fiscal year 1986 budget calls for an additional expenditure of $2 trillion over the next 5 years. In the shadow of a national debt which has doubled over the last 4 years and is threatening to triple before 1990, there are two inevitable questions which have to be asked about this request for even higher defense expenditures. The first one is do we need to be spending this much money on defense; and second, can we afford to spend this much money on defense.

Well, we look forward to hearing the views of our panel of experts here today with regard to an acceptable and necessary level of defense expenditures over the next several years, and Mr. Chairman, I am confident that this panel will shed some light on this subject, and I suspect their testimony will be seeds for further debate.

Thank you.

Chairman **Domenici**. Thank you very much, Senator Sasser.

We will proceed first with William Kaufmann. I know each of you have prepared statements, and you can give them in their entirety or summarize them, whichever suits you best. In any event we will make any written statements that you have prepared for this hearing part of the record.

Dr. Kaufmann, would you proceed?

STATEMENT OF DR. WILLIAM W. KAUFMANN, HARVARD UNIVERSITY, KENNEDY SCHOOL OF GOVERNMENT, AND THE BROOKINGS INSTITUTION

Dr. **Kaufmann**. Thank you, Mr. Chairman. I am honored to be here.

I have submitted, I think now, two statements.[1] I will make a third, and try and be quite brief about it and summarize the others, since they are now available to you. First, the original draft that was submitted to you was written several months before the President's budget appeared, and therefore some of the numbers are slightly out of date in particular, because I was using last year's deflators, and I have now made the changes in the numbers.

Second, I have looked at various rates of growth over the next 3 years, since that, I take it, is the focus of the committee. Originally, I looked at a 3-percent real growth over the 3-year period, 1 percent, and a freeze; and since then, I have also looked at a freeze in fiscal year 1986, followed by 1, 2, and 3 percent real growth. The technique I used was simply, given those constraints, what kinds of cuts might one consider making from the administration's budget, because their 3-year plan grows at a real rate of 7.7 percent per year, and 6.6 percent real over the 5-year period. So obviously, unless there is a great deal of water in the budget, something very substantial would have to give.

I defined as the objectives within which I would try and see what I needed to cut as, first, the ability of the strategic nuclear forces after a surprise attack to be able to deliver at least 3,000 warheads on a comprehensive list of targets, both hard and soft; the conventional forces to be able to sustain an initial defense, defined as roughly 45 days, in at least two major theaters; the Navy to be able to hold open the sealanes both to the European theater, the western Pacific, and into the Persian Gulf, and for the intercontinental lift to be able to support the necessary deployments. So those were the objectives that I set in trying to ask what changes, if any, would be feasible.

EASY TO LIVE WITHIN 3 PERCENT REAL GROWTH

Quite frankly, owing to what I consider to be a great deal of duplication, excessive haste, and mistaken priorities in the current program, I found it quite easy, with a minimum of cancellations and mostly stretchouts in the investment part of the budget, to live within 3 percent real growth per annum. Obviously, it gets harder as you go down, and if one were to think of a freeze over the next 3 years, that obviously requires very tough action, not only in the investment area, but also in the operating and support accounts. But I found it really quite easy to live within the 3-percent real growth and felt that one really needs to give up very little in the way of programs in order to maintain a 3-percent real growth.

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[1] See p. 200.

Furthermore, I think it is attractive in the sense that it permits a transition from the very high rates of growth that have occurred over the last 4 years to what I would regard as a more appropriate and a more sustainable rate of real growth over the coming years. In sum, I continue to be of the view that, while past rates of growth have been excessive, real growth in the defense budget is desirable and has been in the past.

GROWTH OF SOVIET DEFENSE SLOWED SUBSTANTIALLY

I was asked in addition to comment on some of the arguments that have been made to the committee about, first, the threat. I think that while the Soviet Union does not wish us well, it is possible to exaggerate, and I believe we have tended to exaggerate, the magnitude of the threat. It is important to realize as both CIA and even DIA have acknowledged, that the rate of growth in the Soviet defense effort slowed down substantially starting in the mid-seventies, and probably did not start to pick up again until, at the earliest, 1983, and that between 1976–83, there was no real growth in their investment. The growth that did occur, as I am sure you are aware, occurred in their operating and support accounts; investment has been flat.

Now, it is flat in terms of a very large budget, and therefore this does not mean that they have stopped producing. They certainly are producing. But I think it is important to recognize that they, too, have incurred a period of neglect.

NO REASON FOR DOD TO HAVE FIXED PERCENT OF GNP

Second, much is often made of the percent of GNP that is allocated to defense. Percent of GNP is just not a good measure of what the burden of defense should be. Obviously, we can bear a larger burden than we now are bearing. In World War II, we actually committed as much as 36 percent of the GNP to the military effort, and we have been as high as 9 or 10 percent, and even higher, in peacetime. But these percents are percents of what have been and one hopes will continue to be rising GNP's, and there is no reason whatsoever why the Defense Department, any more than any other department of Government, should have a fixed percent of GNP as the basis for its budget.

Just a word about the famous decade of neglect. The people who make so much of the decade of neglect should really ask, should we not have cut the defense budget as we withdrew from Vietnam, or should we have just stayed at those levels after withdrawing our forces. Second, do we really believe that there has not been any increase since the withdrawal from Vietnam? My calculations, based on OMB data, say that starting in 1977, we did increase the defense budget in real terms—not as much as might have been desirable, but on the average, it went up close to 3 percent a year in real terms.

What also is forgotten is that since militarily we did not suffer a defeat in Vietnam, we inherited an enormous amount of equipment and supplies from that war. We underwent a very rapid modernization, particularly of ground forces and tactical air forces during the war, so that it is not as though the forces were neglected. And I think the whole notion that there was this decade of total neglect has been greatly exaggerated.

Finally, there is the notion that somehow or other Congress, because it received certain advice about programs from the administration in the early eighties, is absolutely committed to continuing those programs through the late eighties. I do not quite see the logic of that. It really depends on what the Congress now believes is desirable, rather than on simply sticking to programs because they were begun in the early eighties.

MX NOT A CRITICAL BARGAINING CHIP

Finally, on arms control, in my observation, the Soviet Union has come to the table when United States budgets were going down; it has left the table when those budgets were going up, and I doubt that there is very much relationship between the particulars of what Congress does about the budget and what the Soviet Union does about arms control. With specific reference to the MX missile, I may misjudge the Soviet leadership, but it is very hard for me to understand why they would make significant concessions for the cancellation of MX when they would still have to contend with the Trident-II-D5 missile and with cruise missiles which will be of some concern to them as well. In other words, I do not see the MX as a critical bargaining chip in what one hopes will be successful arms control negotiations.

I think I have gone far enough, Mr. Chairman. Thank you.

Chairman Domenici. Thank you very much, Dr. Kaufmann.

[The prepared statements of Dr. Kaufmann follow:]

Statement of William W. Kaufmann
before the Senate Budget Committee
Tuesday, February 19, 1985

Mr. Chairman, members of the Senate Budget Committee:

It is an honor to appear before you, I understand that a draft study of the fiscal 1986 defense program prepared for the Brookings Institution has been distributed to you in lieu of a formal statement. Work on the draft was completed nearly two months ago, well before the President submitted his budget request. Accordingly, some of the numbers are out-of-date and have been modified. As one example, I used last year's defense deflators in the draft to calculate nominal defense budgets for the next three fiscal years. Since the deflators now used by the Defense Department are lower, I have substituted them for the older ratio in preparing the final draft. For the most part, however, the published report will not differ much from the draft you have.

As you will see from the draft, I have considered the implications of cuts in the administration's defense budget authority during the next three fiscal years. In the first two cases, I allowed real growth rates of three and one percent a year; in the third, I imposed a freeze (in real terms) for all three years. I have included the results in an appendix, along with the budgetary effects of a freeze in fiscal 1986 followed by real growth of one percent in fiscal 1987, two percent in fiscal 1988, and three percent in fiscal 1989 and 1990. The outlays estimated for each of these cases are also given in the appendix, along with a list of investment programs that deserve consideration for cancellation or stretchout.

Even if budget authority is allowed to grow by three percent a year in real terms, it should be possible to save $78 billion in outlays during the next three years, or $50 billion more than the administration has proposed. What I have labeled the "Freeze Plus" would save over $80 billion. Growth at three percent a year requires only quite modest changes in the administration's program. Lower rates of growth obviously force larger but still acceptable adjustments, primarily in the investment accounts. I should add that, in estimating these savings, I have dealt solely with the 051 account; I have not included reductions that could be made in atomic energy defense activities if the nuclear components for the MX, SICBM, and enhanced radiation weapons were deferred or cancelled.

There are, of course, many different ways by which to accommodate these reduced rates of growth. Because so much has already been done to improve readiness and sustainability, to overhaul and upgrade existing weapons, and to modernize the force, my own preference would be to:

1. Slow the growth of investment (procurement, RDT&E, and military construction) by stretchouts and some cancellations; and
2. Hold flying, steaming, and vehicle hours, weapons upgrading, and commitments to the reduction of BMAR (the backlog of maintenance and repair) at fiscal 1985 levels.

The budgets by appropriation title included in the appendix reflect this preference.

I am quite confident that reductions along these lines will neither reduce the effectiveness of U.S. defense capabilities nor impede our negotiations on arms control with the Soviet Union. I base that confidence on the assumption that our main defense goals are to be able to:

1. deliver more than 3,000 warheads on a second-strike with our strategic nuclear forces;
2. conduct an initial forward defense with our conventional forces (in conjunction with allies) in at least two key overseas theaters;
3. improve intercontinental mobility, primarily with additional fast sealift; and

4. control the sea lanes to the potential theaters of war, also in conjunction with allies.

In my judgment, we can achieve these objectives with a more gradual modernization of weapons, a more modest growth in funding, and a somewhat different allocation of resources than is currently proposed.

Unfortunately, the five-year defense plan seems to reflect more concern about the overall size and pace of the modernization program than about its purposes. The result is exessive duplication and questionable priorities. For example, it is difficult to understand why, simultaneously, we need to fund improvements in the B-52, and prepare for the production of the advanced technology bomber--all for the purpose of penetrating air defenses that do not yet have a look-down, shoot-down capability. I find it equally difficult to understand why it is so essential to proceed with a hard-target kill capability in three different ballistic missiles (MX, the Trident D-5, and the small ICBM), or what specific technological opportunities are not already being generously funded by the level of appropriations Congress provided for the strategic defense initiative in fiscal 1985.

To improve our conventional defenses we need additional ground forces drawn from the the National Guard and Reserve, more close air support, a buildup of frigates, and substantial fleet of fast sealift ships. Regrettably, however, the five-year defense plan emphasizes carrier battle groups, aircraft for deep air superiority and interdiction, and airlift. The Defense Department contends that the Soviet Union enjoys quantitative superiority over the United States and is on the verge of surpassing us technologically. But despite this diagnosis, U.S. forces will have expanded very little between 1981 and 1990, and officals are evidently more interested in preventing U.S. technology from falling into Soviet hands than in acquiring Russian technology. On the face of it, either the threat has been exaggerated or U.S. policy has lost sight of its goals. The mismatch between needs and programs may even reflect a combination of the two.

It may be unfashionable to argue that we should be at least as explicit in relating defense programs to defense needs as we are in our approach to agriculture, health care, education, and social security. Even so, I am troubled by the implication that some percentage of the GNP should be the basis for measuring the adequacy of our defense effort. Why is the Pentagon entitled to a fixed share of a rising GNP and what, I wonder would happen to that claim if the threat were rising while the GNP was declining? Is there any relationship between what we need for the defense of our interests and some fixed percent of GNP? If so, what should the percentage be?

Do those who point to the "decade of neglect" as another basis for the defense effort believe that we inherited no new equipment and no stocks of supplies from the war in Vietnam? Do they think the President and Congress should not have reduced defense expenditures as we withdrew from Southeast Asia? Have they forgotten that defense budgets began to rise again in 1977 as the nation recovered from the trauma of Vietnam? Is it of no significance to them that, at about the same time, the Soviet Union embarked on some neglect of its own--at least six years of it during which military investments did not increase at all?

Even supposing the mythical decade of neglect actually occurred, is there no end to the effort we now have to make in order to compensate for our past sins? Apparently not. For the next five years the defense budget will grow, on the average, by 6.6 percent a year in real terms. This growth, you have been told, is consistent with past Congressional actions and must therefore be continued to complete the programs already approved. But that is like saying that bad advice in the past--advice that led to unwarranted duplication, excessive pace, and mistaken priorities --should be taken as gospel in the future.

This same argument asks you to believe that the excesses of the previous five years will not be repeated in the next five. Before that claim is accepted, however, at least two questions deserve to be answered. Why is it that only a year ago, the budget proposed for fiscal 1986 was $349.7 billion, while it is now down by $36 billion to 313.7 billion? And how is a substantial military pay raise to be added to the budget for fiscal 1985 without the necessity for a supplemental? I do not know the answer. But it is worth noting that the spendout of budget authority keeps slowing down and that despite Congressional cuts in appropriations, the backlog of budget authority keeps going up. The appetite of defense seems to have grown too large for its stomach.

You have undoutedly heard that reductions in the size of the budget, and changes in its composition, will adversely affect the prospects for arms control. But it is worth recalling that Soviet negotiators have come to the bargaining table when MX, SDI, and the defense budget as a whole were being cut. And they have left it when all these were being increased. That they will make a major concession of their own in return for the cancellation of MX seems unlikely when they would still be left to contend with the hard-target kill capability of the D-5, the small ICBM, and the ALCM.

But whatever Soviet behavior may turn out to be, it is at least as important to bring the federal deficit under control as it is to begin the long, hard, and uncertain process of negotiating a strategic arms control agreement. For more than a decade, in and out of the Pentagon, I have argued for real increase in the defense budget. Despite the dramatic growth of that budget during the last four year, I still suspect that modest increases may be desirable. But I am reminded of the story that as the Titanic was going down, John Jacob Astor handed his glass to the ship's bartender and said, "I asked for ice, but this is ridiculous." I am encouraged to see that the Senate Budget Committee is thinking along the same lines.

Thank you

APPENDIX

Table 1. The Administration Plan and Four Alternatives for Fiscal 1986-90
Billions of dollars unless otherwise indicated

	Fiscal Year						
Budget Authority	1985	1986	1987	1988	1989	1990	
Administration	284.7	313.7	354.0	401.6	438.8	477.7	
Three percent solution	284.7	304.5	328.0	352.7	-	-	
One percent solution	284.7	298.6	315.4	332.6	-	-	
Freeze plus one, two, three	284.7	295.6	311.4	331.0	354.9	379.4	
Freeze	284.7	295.6	309.2	322.8	-	-	
Outlays							
Adminstration plan	246.3	277.5	312.3	348.6	382.3	418.3	
Three percent solution	246.3	272.4	296.1	319.9	-	-	
One percent solution	246.3	269.2	287.9	305.6	-	-	
Freeze plus one, two, three	246.3	267,6	285.0	303.9	325.2	347.2	
Freeze	246.3	267.6	283.8	298.4	-	-	
Savings in Outlays							Total
Administration plan	-	-	-	-	-	-	
Three percent solution	-	5.1	16.2	28.7	-	-	50.0
One percent solution	-	8.3	24.4	43.0	-	-	75.7
Freeze plus one, two, three	-	9.9	27.3	44.7	57.1	71.1	210.1
Freeze	-	9.9	28.5	50.2	-	-	88.6
Rate of inflation (percent)							
Year-to-year	-	1.04	1.043	1.042	1.041	1.038	
Cumulative	-	1.04	1.085	1.13	1.177	1.221	

APPENDIX

Table 2. Candidates for Stretchout or Cancellation

		Savings (Fiscal Years)				
Strategic programs	Action	1986	1987	1988	1989	Total
MX missile	Cancel	4.0	3.2	2.6	0.9	10.7
Small ICBM	"	0.6	1.8	1.9	2.4	6.7
B-IB	"	6.0	0.1	-	-	6.1
OTH-B radar	"	0.4	0.3	0.1	-	0.8
ATB bomber	Defer production	0.5	2.5	2.5	2.5	8.0
SDI	Freeze at 1985 level	2.4	3.6	4.9	6.0	16.9
		13.9	11.5	12.0	11.8	49.2
Army programs						
Binary munitions	Cancel	0.4	0.7	1.3	3.0	5.4
DIVAD	"	0.7	0.4	0.1	0.1	1.3
Patriot	Halve production	0.6	0.6	0.5	0.3	2.0
TOW II	Halve production	0.1	0.1	0.1	0.2	0.5
Stinger	Halve production	0.2	0.2	0.2	0.2	0.8
VH-60A	Halve production	0.2	0.2	0.2	0.3	0.9
M-1	600 a year	0.3	0.3	0.3	0.3	1.2
M-2	600 a year	0.2	0.4	0.4	0.4	1.4
Joint Stars	Stretch development	0.1	0.1	0.1	0.1	0.4
Standoff tactical missile	Stretch development	0.1	0.1	0.1	0.1	0.4
		2.9	3.1	3.3	5.0	14.3

APPENDIX

Table 2 (con'd). Candidates for Stretchout or Cancellation

Navy/USMC programs						
AV-8B	Halve production	0.5	0.4	0.5	0.5	1.9
F-14 A/D	" "	0.6	0.5	0.6	0.8	2.5
JVX	Defer "	-	-	0.1	1.3	1.4
F/A-18	Halve "	1.2	1.3	1.4	1.2	5.1
EA-6B	" "	0.2	0.2	0.1	0.2	0.7
P-3C	Freeze at 6/yr.	0.2	0.2	0.2	0.2	0.8
E-2C	" " 3/yr.	0.2	0.2	0.2	0.2	0.8
Battleship	Cancel	-	0.5	-	-	0.5
CG-47	"	3.3	3.5	2.6	2.8	12.2
SSN-688	Halve production	1.2	1.2	1.3	1.4	5.1
LHD-1	Cancel	1.4	0.1	1.5	1.6	4.6
LSD-41	"	0.5	0.5	-	-	1.0
		9.3	8.6	8.5	10.2	36.6
Air Force programs						
F-15	Halve production	0.3	0.5	1.4	1.0	3.2
F-16	" "	1.9	1.7	1.7	1.8	7.1
Maverick 11R	Cancell	0.7	0.9	0.9	0.9	3.4
AMRAAM	"	0.9	1.1	1.0	1.0	4.0
LANTIRN	"	0.5	0.8	0.7	0.6	2.6
GBO-22/24	"	0.2	0.2	0.3	0.4	1.1
C-5B	"	2.6	2.3	-	-	4.9
C-17	"	0.4	0.6	2.6	2.7	6.3
		7.5	8.1	8.6	8.4	32.6

APPENDIX

Table 2 (cont'd). Candidates for Stretchout or Cancellation

Modern munitions		Savings (Fiscal Years) 1986	1987	1988	1989	total
Army	Freeze at 1985 level	0.5	--	--	--	0.5
Navy/USMC	Freeze at 1985 level	0.6	0.9	1.5	1.0	4.0
Air Force	Freeze at 1985 level	0.8	1.2	1.5	1.6	5.1
		1.9	2.1	3.0	2.6	9.6

Summary of programs	1986	1987	1988	1989	total
Strategic	13.9	11.5	12.0	11.8	49.2
Army	2.9	3.1	3.3	5.0	14.3
Navy/USMC	9.3	8.6	8.5	10.2	36.6
Air Force	7.5	8.1	8.6	8.4	32.6
Modern munitions	1.9	2.1	3.0	2.6	9.6
	35.5	33.4	35.4	38.0	142.3

APPENDIX

Table 3. Alternative Budgets by Appropriation Title, Fiscal 1986-90
Billions of Dollars

	Fiscal Year				
Three percent solution	1986	1987	1988	1989	1990
Military personnel	71.2	75.1	79.0	83.0	86.9
Operation and maintenance	83.1	88.6	94.3	100.4	106.5
Procurement	107.7	120.0	133.2	146.6	160.8
RDT&E	32.8	34.2	35.6	37.1	38.5
Military construction	5.7	6.0	6.2	6.5	6.7
Family housing	3.0	3.1	3.3	3.4	3.6
Funds	1.0	1.0	1.1	1.2	1.3
Budget authority	304.5	328.0	352.7	378.2	404.3
One percent solution					
Military personnel	71.2	75.1	79.0	83.0	85.9
Operation and maintenance	81.9	86.1	90.3	94.8	100.5
Procurement	103.1	109.9	117.2	123.7	129.2
RDT&E	32.8	34.2	35.6	37.1	38.5
Military construction	5.7	6.0	6.2	6.5	6.7
Family housing	3.0	3.1	3.3	3.4	3.6
Funds	0.9	1.0	1.0	1.2	1.2
Budget authority	298.6	315.4	332.6	349.7	366.6

APPENDIX

Table 3 (cont'd). Alternative Budgets by Appropriation Title, Fiscal 1986-90
Billions of Dollars

	Fiscal year				
Freeze plus	1986	1987	1988	1989	1990
Military personnel	71.2	75.1	79.0	83.0	86.9
Operation and maintenence	81.3	85.5	90.3	96.6	102.0
Procurement	100.7	106.5	115.6	127.2	140.5
RDT&E	32.8	34.2	35.6	37.1	38.5
Military construction	5.7	6.0	6.2	6.5	6.7
Family housing	3.0	3.1	3.3	3.4	3.6
Funds	0.9	1.0	1.0	1.1	1.2
Budget authority	295.6	311.4	331.0	354.9	379.4
Freeze					
Military personnel	71.2	75.1	79.0	83.0	86.9
Operation and maintenence	81.3	84.8	88.4	92.0	95.5
Procurement	100.7	105.0	109.3	112.9	116.4
RDT&E	32.8	34.2	35.6	37.1	38.5
Military construction	5.7	6.0	6.2	6.5	6.7
Family housing	3.0	3.1	3.3	3.4	3.6
Funds	0.9	1.0	1.0	1.1	1.2
Budget authority	295.6	309.2	322.8	336.0	348.8

THE 1986 DEFENSE BUDGET

William W. Kaufmann

Prepublication Draft

January 1985

THE 1986 DEFENSE BUDGET

William W. Kaufmann

President Reagan, like the Duke of Wellington after Waterloo, has ample reason to believe that "Nothing except a battle lost can be half so melancholy as a battle won." The President has gained a famous victory over his Democratic challenger, but he has incurred heavy costs in the process. Federal deficits have climbed to stunning levels, with adverse effects on real interest rates, economic growth, and the U.S. balance of payments. Moreover, the deficits will continue to grow as far as the eye can see unless stern action is taken soon to balance the government's books.

The Issues

Whatever remedies the President may recommend to improve the nation's fiscal health, other economizers are bound to make the defense budget and five-year program a target for major savings in current and future outlays. That this should be the case is quite understandable. Defense outlays constituted 29 percent of total federal spending in FY 1984 (the fiscal year just ended), and account for 75 percent of all goods and services purchased by the federal government. While total federal spending from FY 1980 through FY 1984 has grown in real terms by 15 percent, real defense outlays have expanded by 32 percent. Whereas at the outset of the Reagan administration these outlays took 5.2 percent of the nation's gross national product, that share is now 6.5 percent of a larger national product.

Growth and size alone do not explain why defense programs should be a target for reductions or slower growth in the future. Many members of Congress also believe that as a matter of equity or expediency if domestic programs are to be cut, defense should be cut as well, regardless of the external dangers that may face the United States. In addition, a faint odor of scandal surrounds the budget as a result of overpriced hammers and coffee pots, new spare parts prematurely sold as surplus, and contracting practices designed seemingly for the convenience of the producers rather than for the protection of the public. Not surprisingly, such practices lead members of Congress to suspect that defense already has at its disposal more resources than it knows how to manage. And this suspicion is reinforced by the rapidly changing rationale given by the administration for its programs and their growth.

These attitudes, doubts, and reservations, whatever their merits, do not lead automatically to statements about the specific amounts of budget authority or outlays that could be cut from defense in FY 1986 (the coming fiscal year), in the out-years (FY 1987-1990), or even in prior fiscal years by means of congressional rescissions. Consequently, unless budget surgery is to be arbitrary and quite possibly damaging to the patient, two questions need to be answered. First, to use the vernacular, what defense capabilities are required to assure low risk to U.S. security, and what are their costs? Second, how do past and current defense plans and programs mesh with these requirements?

Requirements and Risk

Each year the Joint Chiefs of Staff, through their Joint Strategic Planning Document (JSPD), provide an estimate of the "minimum-risk" capabilities required to maintain U.S. security. And these capabilities are now used as the benchmark against which to measure the adequacy of current plans and programs. As might be expected, a gap invariably exists between what the JCS regard as required and what the President and the Secretary of Defense consider to be politically and fiscally feasible. One way to deal with the gap is to challenge the merits of the minimum-risk force (an example of which is shown in table 1) and discard it as a benchmark. Another way is to use the gap as the basis for continuing increases in the defense budget. Even when this is done, however, the gap never seems to disappear.

This inability to close the gap should come as no surprise. The minimum-risk force, unhampered by fiscal restraints, is a collection of the Holy Grails sought by each of the services and a device to ensure that no matter how compliant the civilian leadership of the Pentagon, the responsibility for any future failures in the field will fall elsewhere than on the JCS. To say this, however, is not to deny that the idea of a minimum-risk force has merit. Provided it is the product of study rather than stapling machines, it can give key policymakers a sense of the relationship among budgets, forces, and the probability of reaching objectives.

The concept of the minimum-risk force can also help to dispel a myth that is frequently repeated. It is that capabilities must coincide precisely with commitments, and that if they do not, either the capabilities or the commitments must undergo some unspecified adjustment. In fact the defense effort, as with most other things, is always a compromise between the ideal and the practical. It is possible and desirable to be explicit about the compromise being made and it is necessary in doing so to keep both elements in mind. Admittedly, the effort to relate capabilities to commitments is a difficult one, depending as it does on the nature and importance of the commitment, allied forces, mobility, logistics, and what a potential enemy is able to do. But there is always some probability that a given set of capabilities, at a given cost, will be able to fulfill the commitments. What policymakers need to understand, therefore, is the range of choice that lies between a carefully crafted minimum-risk force that appears to guarantee success and one that would be very likely to fail. Rather than argue about cutting commitments to fit capabilities, or increasing capabilities to satisfy commitments, they should be focusing on how much they are willing to pay to reduce the risk, and at what point they run into rapidly diminishing returns to scale. If they dislike high risks and low probabilities, they can then decide how to proceed.

The description of a minimum-risk force thus may be a necessary but hardly sufficient condition of sound military advice, particularly when it is unaccompanied by costs. Even though planning staffs may fear that civilian policymakers, if offered a range of costs, capabilities, and risks, will always choose low costs and high risks, the danger of insisting that the minimum-risk force is the only option is equally great. For, in the process of demanding the unattainable best (if it really is that), the attainable good may be excluded.

If the issue seems abstract and without operational implications, several considerations should be recalled. First, the United States is committed either by formal treaty or by presidential declaration and executive agreement to come to the aid of more than forty nations in the Western Hemisphere, Europe, the Middle East, Southwest Asia, and the Far East. Second, nuclear forces aside, it deploys only twenty active-duty divisions, twenty-nine land-based fighter-attack wings of aircraft, and a navy of 545 ships by the current rules of counting. On top of that apparent disparity between commitments and capabilities, alarm (recently muted) has been expressed about a window of strategic nuclear vulnerability, about the inability of the United States and its allies to withstand a major conventional attack by the Warsaw Pact in central Europe without resort to the tactical use of nuclear weapons (where the Warsaw Pact is also alleged to have superiority), about the apparent nakedness of the Middle East oil states to a Soviet invasion through Iran, about the buildup of North Korean forces along the Demilitarized Zone (DMZ) of Korea, about communist infiltration of Central America, and about the U.S. Navy's supposed loss of its "necessary" (but undefined) margin of superiority over the Soviet fleet. Indeed, if the Reagan administration is to be believed, the military situation has been desparately unfavorable for some time. Since U.S. capabilities have changed very little during the past four years, despite the appropriation of nearly $900 billion for defense by Congress, the situation still must remain desperate.

But just how desperate is it? What resources invested in which areas will make how much of a difference? Do policymakers have no choice between existing capabilities and the minimum-risk force, or is there an intermediate military posture that lowers the risk but does so without breaking the bank? Obviously such a point must exist, since the pessimism about the military situation is actually an implicit statement that the probability of success is low but not zero (why, otherwise, has World War III not begun?), a probability that presumably can be raised with an increase of resources.

The Threat

It is important to realize in this connection that much of the administration's original pessimism rested on a rather simple comparison of what the United States and the Soviet Union are supposed to be spending on defense. As the Secretary of Defense expressed it, while the U.S. defense establishment suffered from a decade or more of neglect, the USSR embarked on the biggest military buildup in modern history. These diverging trends had inevitably led to a host of U.S. vulnerabilities and the rising danger of military defeat or political collapse in the face of Soviet pressure. Hence the need to raise the rate at which resources were pumped into defense by substantially more than the 5 percent a year real growth proposed by the Carter administration in its farewell five-year plan for FY 1982-86.

It is possible to question whether inputs such as dollars or rubles rather than outputs such as forces and their performance are the most appropriate way to measure the relative power of two great nations with differing concerns and objectives. It is equally possible, in any event, to suggest that the administration did not get the comparison quite right. Whether U.S. defense capabilities actually suffered a decade or more of neglect is at least arguable considering that the services inherited a great deal of new equipment and substantial stocks of munitions as a result of the war in Vietnam, that $185 billion was spent on procurement alone from FY 1974 through FY 1980, that most of the improvements claimed for the defense establishment during the last four years are the result of decisions taken during the Ford and Carter presidencies, and that NATO nations as a whole have consistently spent more on defense than the Warsaw Pact members including the decade of the 1970s. More important, the precise size and thrust of the Soviet buildup has become a matter of some doubt. Data about the resources actually committed to defense by the USSR are relatively sparse and analysts, in any event, have difficulty equating these data with U.S. defense expenditures. As a consequence, the Central Intelligence Agency (CIA) uses a methodology that tries to determine what it would cost to buy the Soviet military program in the U.S. economy--that is, paying U.S. prices for the goods and services, the materiel and men, provided to the Soviet defense establishment. While this methodology has its drawbacks (as the CIA is the first to acknowledge), its results are extensively used, and they provide the basis for the claim that Soviet defense spending has grown by 4 percent a year in real terms since 1964, that the total each year now exceed that of the United States by about 50 percent (with pensions excluded on both sides), and that Soviet defense investments--which consist of military procurement, research, development, test and evaluation (RDT&E), and construction--are greater by 90 percent.

Assuming for the moment that these claims are correct, what do they demonstrate? At a minimum, it is disconcerting to contend with a potential adversary who, year-in and year-out, commits an estimated

13-14 percent of his GNP to military pursuits, and it is hardly prudent to let such an effort proceed without response from the United States and its allies. But the design of the response needs to take into account not only the magnitude of the Soviet effort but also a number of other considerations. For example, the steady increases that are associated with Brezhnev's accession to power were probably intended to compensate for the reductions imposed by Khrushchev on Soviet ground forces and for his efforts to get by with a relatively modest deployment of stragetic nuclear capabilities. Even under Khrushchev concern about future relations with China had developed. Under Brezhnev, this concern led to a substantial buildup of Soviet nuclear and non-nuclear forces in the Far East--a buildup that accounted for about 25 percent of the increase in dollar-computed expenditures that occurred. It is also worth noting that some American defense analysts consider that real increases of 3-4 percent a year in the defense budget are necessary to allow for the systematic modernization of the U.S. defense establishment. Conceivably Soviet military planners were more successful than their American counterparts in persuading the Kremlin to budget on that basis. Quite possibly, growth in the Soviet defense budget was also tied to growth in the Soviet GNP.

However these rates of growth may be explained, what has been evident for more than a year is that they proved less relentless than the defense department claimed. Even the Defense Intelligence Agency has agreed that, measured in the U.S. economy, the rate of growth in Soviet defense spending, while averaging 4 percent a year in real terms until 1974, then fell to an annual average of 3 percent between 1974 and 1976, and dropped to 2 percent a year between 1976 and at least

1981. What is more, during these six years (and probably for longer) investment did not grow at all in real terms. Such increases as occurred went to the operation and support of the forces. Presumably an upturn in real Soviet defense investment has occurred since 1983, but whether it has extended beyond the relatively sterile area of strategic and intermediate-range nuclear systems is not yet publicly clear.

Since Soviet spending on defense was already high, as measured by the CIA methodology, too much comfort cannot be drawn from the slowdown in real defense growth and the flatness of spending on investment. As defense spokesmen hasten to point out (but only about the USSR), large defense budgets, even if they do not grow, still permit a substantial modernization of Soviet forces. Nonetheless, to the extent that these comparisons are useful--and they are at least indicative of trends--they suggest that the military situation may not have been as unfavorable to the United States and its allies as the administration originally assumed, and as the defense department continued to proclaim even after the new assessments of the Soviet defense effort began to emerge.

Strategic Nuclear Capabilities

Other analyses point in the same direction. Nowhere is this more evident than in the assessment of the U.S. strategic nuclear forces. The capabilities inherited by the Reagan administration have changed very little since 1981 and the changes that have occurred were started and funded by the Carter administration. Nonetheless, these forces are still capable of giving a rather impressive account of themselves.

Even in the wake of a well-executed Soviet surprise attack--an attack directed primarily at U.S. ICBMs, bomber bases, strategic submarine ports, and air defense installations--the inherited capabilities should have a high probability (in the range of 80 percent) of delivering more than 3,660 warheads against a wide range of aiming points. Unless the Soviet attack had crippled the U.S. command-control system, the President (or his designated successor) would also have the option of withholding a large portion of the surviving warheads, particularly those carried by submarine-launched ballistic missiles (SLBMs), and retaliating only against a subset of the very long target list contained in the basic U.S. war plan. It is difficult in these circumstances to believe that the United States does not continue to have a powerful strategic nuclear deterrent or that a window of vulnerability has existed or is likely to open in the next few years.

Potential Developments

To make this assessment is not to claim that policymakers can confidently count on the U.S. stragetic forces to deter more than nuclear attacks on the United States and its allies. Nor is it to suggest that the problem of nuclear deterrence has been solved now and forever. However much we may have been able to depend in the past on the strategic nuclear forces to shield the United States and its allies from major conventional aggression, their role has now been severely limited by the growth of Soviet strategic capabilities. But at the same time that the role of these forces has shrunk, the technology of the offense and the defense has advanced. Ballistic and cruise missiles are growing still more accurate and perhaps more reliable, and the degree of accuracy is becoming less dependent on whether the launch platform is stationary or mobile. Active air defenses, with the advent of look-down, shoot-down techniques, now have the ability to identify, track, and intercept low-flying bombers with fairly large radiating surfaces (known as their radar cross-section). But the stealth technology can be used to reduce these radar cross-sections and lower the probability that newer bombers and cruise missiles will be detected. Advances are also taking place in anti-ballistic-missile (ABM) defenses, and it is conceivable that either the United States or the Soviet Union (or both) will be tempted to deploy the less exotic of these systems as a way of reducing the vulnerability of their ICBMs. Improvements can be expected at the same time in the various devices used to identify and track submarines, but submarines are becoming quieter and thus more difficult to engage.

These developments have already jeopardized the survivability of silo-based ICBMs, although their current vulnerability has probably been somewhat exaggerated. In the coming years, these same developments will undoubtedly complicate the task of penetrating enemy defenses. Hence, unless future arms control agreements can forestall them, the competition between the offense and the defense is almost certain to continue and even accelerate as both the United States and the Soviet Union expand their strategic defense initiatives, seek to improve further the yield-to-weight ratio of their warheads, emphasize greater throw-weight as a means of carrying more re-entry vehicles and decoys, and apply stealth technologies to submarines, bombers, and cruise missiles. Since, on the average, it seems to take at least five years to conclude a major arms control agreement, even an optimist would probably want to allow the force planners enough freedom to explore, develop, and deploy some of these putative capabilities. The issue facing the policymakers is which ones?

An erosion has already occurred in the ability of the United States to deliver warheads to targets in the Soviet Union on a second-strike, largely because of the growing vulnerability of the Minuteman ICBM force. If U.S. planners did nothing to modernize the strategic offense, they would have to anticipate a still greater erosion of retaliatory power. Within a decade, the survivability of the ICBM force could fall from 20 percent to 5 percent. Despite the dismal performance of Soviet air defenses against Korean airliners, the introduction of a look-down capability equivalent to that of the U.S. Airborne Warning and Control System (AWACS) could sharply reduce the probability that large, low-flying bombers such as the B-52H could penetrate to their targets. Even some of the SLBMs could conceivably be threatened. Improved Soviet anti-submarine warfare (ASW) capabilities might permit attacks on those Poseidon submarines carrying the shorter-range C3 ballistic missile (unless they are retired in the early 1990s), and a widespread deployment of ABM defenses could reduce the penetration probability of their warheads. As table 2 indicates, the inherited force could be expected to deliver a substantial number of warheads despite the possible improvements in Soviet offensive and defensive capabilities. But the probability of their delivery would have fallen dramatically, especially in the case of the ICBMs and the bombers. Consequently, the country no longer could have high confidence in the retaliatory effectiveness of the strategic offense and hence in its deterrent power.

Improvements Needed

Fortunately, most of the measures necessary to prevent this further erosion are already in hand. The gradual introduction of the Trident submarine and the deployment of the C-4 (Trident I) missile mean that 12 of the Poseidon and all of the Trident boats can fire their missiles from stations well beyond the probable range of effective Soviet ASW. The C-4, with its increased throw-weight and greater ability to carry either a larger number of warheads or more decoys than its predecessors, also should have a higher probability of penetrating any Soviet ABM defenses. With the deployment of the D-5 (Trident II) missile, starting perhaps as early as 1989, not only will more throw-weight per missile become available; a significant hard-target-kill capability will also be deployed in the strategic submarine force for the first time. Simultaneously, the ability of the bomber force to penetrate upgraded enemy air defenses is being restored principally through the deployment of air-launched cruise missiles--first ALCM-B, to be followed by the advanced cruise missile (ACM)--which will also have a significant probability of killing hard targets. Of course, cruise missiles would reach those targets hours later than ballistic missiles, but that could be an advantage rather than a disadvantage on a second-strike.

Assuming that the United States continues the SALT II limit on the deployment of ALCMs (a limit of 120 bombers and 3,660), how well would the improved submarine and bomber forces, combined with the existing Minuteman ICBMs, perform after a Soviet surprise attack? Table 3 indicates that, despite an upgraded Soviet offense and defense, the SLBMs and ALCMs of the improved force would have a high probability of reaching their targets. Along with the few surviving Minuteman ICBMs, they could be expected to deliver at least 3,100 weapons against a mixture of hard and soft aiming points with only tactical warning, and 5,700 weapons in the event of a generated alert--which the strategic forces would probably adopt in the event of a major Soviet-American confrontation.

If the SALT II constraint were abandoned, and a wide-bodied commercial aircraft were adapted as a cruise missile platform, the number of deliverable weapons could rise still further (as table 4 indicates). Indeed, with or without SALT, a cruise missile carrier would be an inexpensive way to replace the B-52s, as and when they reach the end of their useful service lives.

Administration Programs

The capabilities shown in tables 3 and 4 should provide deterrence of a very high order well beyond a decade. They should also put pressure on the Soviet Union to enhance strategic stability by reducing its dependence on silo-based ICBMs. The administration, however, has not been content to settle for these improvements. It has fought long, hard, and with considerable success on three fronts, not only to modernize the strategic forces it inherited, but also to expand the repertory of strategies these forces would be capable of adopting.

On the first front, the administration has argued for the retention of an upgraded version of the strategic offensive Triad, lobbied vigorously for deployment of the MX missile despite the failure to find a highly survivable basing mode for it, and, in response to Congressional pressure and the advocacy of the Scowcroft Commission, launched the development of a small ICBM. This last missile would presumably (but not necessarily) be armed with a single warhead and would depend for its survivability on its ability to move quite rapidly on a hardened vehicle (frequently referred to as Armadillo). It would, in other words, be something like a land-based submarine, but without a submarine's peacetime operating area or its ability to stay on the move for an extended period of time.

On the second front, the administration has insisted on upholding the tradition of the manned penetrating bomber in addition to cruise missiles as part of the aerodynamic leg of the Triad. Thus, it has revived the B-1B for deployment in the late 1980s and continued development of the stealth or advanced technology bomber for deployment in the 1990s.

On the third front, the administration has modernized the continental air defenses of the United States and advocated a major expansion of what for more than twenty years has been the façade of a civil defense program. Most important, it has instituted what is now known as the strategic defense initiative. This last program, which is scheduled to grow rapidly during the coming years, actually combines development of the more familiar techniques for attempting to intercept and destroy ballistic missile re-entry vehicles with research into methods of using directed energy devices such as lasers and particle beam generators to intercept ballistic missiles soon after their launch. In the jargon, this is known as the boost-phase of their trajectory, while their rocket boosters are still firing and before they have been programmed to deploy multiple independently targetable re-entry vehicles (MIRVs) and decoys.

Since the Reagan administration has held office, the defense department has funded the main programs in these three areas to the tune of about $40 billion. Between FY 1985 and FY 1989 it hopes to fund them for at least another $80 billion. In other words, over and above the cost of the modernized inherited force, which will provide such a strong deterrent, the administration has already paid a substantial premium for these three sets of capabilities. And if its preferences are accepted, that premium will rise rapidly during the next five years. Yet it is by no means clear that most of that premium is worth paying.

Several of the programs for the strategic offense are based primarily on the need to strengthen the strategic Triad. And in the abstract, there is merit to the case. Although the Triad did not come about by holy writ or because of a plan to enjoy its benefits, it has conferred a number of advantages on the United States: in complicating a Soviet attack; in discouraging the Kremlin from deploying even more elaborate defenses than it has already done; in minimizing the kind of shock that occurred when, in the late 1950s, Americans feared that only a few hundred Soviet missiles could destroy the entire Strategic Air Command, then only a Uniad rather than a Triad.

The ICBM Problem

The ICBM leg of the Triad has proved particularly valuable for the more than twenty years of its existence. This was because of its high survivability in silos, the relative ease with which it could be controlled, the higher accuracy of missiles fired from precisely known locations, and their modest investment and operating costs compared with those of bombers and SLBMs. None of this, however, argues that some percentage of the ICBM warheads must be made survivable regardless of the cost. Nor can past benefits possibly justify spending some $30 billion for 100 MX missiles with 1,000 warheads when no more than five missiles and fifty warheads could be expected to survive an enemy attack. The benefits seem particularly incommensurable with the costs when it is recalled that the highly survivable and accurate D-5 (Trident II) missile will be deployed several years after the MX.

The argument has been made--and will be heard frequently in the months to come--that whatever its basing problems, MX cannot be cancelled because it has become a major bargaining chip in the negotiations for arms control with the Soviet Union. But that is surely a perversion of the legitimate case for bargaining chips. A weapon can become a serious bargaining chip for U.S. negotiators only when it has demonstrated military value and would definitely be deployed short of a compensatory concession by the USSR. The MX, considering the opposition to it and its doubtful military value (because of its vulnerability), hardly qualifies by this test. Why, in any event, would the Kremlin pay a major price for cancellation of the MX when they would still have to deal with the threat of the D-5 and cruise missiles?

The small ICBM (SICBM or Midgetman) has been seen as both a substitute for the Minuteman and the MX and as a way of enhancing strategic stability. Since the SICBM would weigh far less than the MX--about 35,000 pounds compared to 190,000 pounds--it could be made truly mobile and allegedly more survivable. And since it would carry only one warhead instead of the ten in the MX bus and the three in the

Minuteman III (of which there are 550), it would constitute a less tempting target for a Soviet preemptive strike. The merit of these arguments, however, depends critically on the size of the area in which the SICBM would be located (before and after warning, if any), and on the number and yield of the weapons the Soviets could allocate to cover the operational area with sufficient blast overpressure to kill the system.

The problem of the mobile missile can be compared to that of a tank. It can be heavily armored, in which case it will have very limited range and speed. Or it can be lightly armored and have greater range and speed. The choice of design, always difficult, is complicated further by the power of nuclear weapons. Especially if airburst, these weapons can cover a substantial number of square miles with overpressures of up to 150 psi. This means that unless the SICBM transporter can be made both resistant to quite high overpressures and speedy, or unless it can operate regularly in a very large area, an enemy can destroy it by blanketing the area rather than by attacking the individual missile. Table 5 shows the number of weapons required to destroy whatever number of SICBMs might be deployed as a function of the operating area of the SICBMs, the hardness of their transporters, and the yields of the nuclear weapons detonated in the blanketing attack. As can be seen, even for quite extensive areas and for transporters capable of withstanding overpressures up to 50 psi, a blanketing (or barrage) attack would be quite feasible for the Soviets, given the ICBM throw-weight they already deploy. Furthermore, if 1,000 SICBMs were within the potential operating areas, the Soviets would have a strong incentive to develop the specific capability to destroy them.

It is conceivable that solutions to the vulnerability of land-based ballistic missiles may be found. Arms control might possibly constrain throw-weight enough to prevent effective barrage attacks, and both sides might choose mobility for their future ICBM basing. Research on advanced basing modes needs to continue. But as matters now stand, several conclusions about the ICBM leg of the Triad seem to be at least tentatively warranted. First, neither the MX nor the SICBM promises to give a high-confidence solution to the basing problem without a much more serious reduction in Soviet throw-weight than can be anticipated from any arms control agreement in the foreseeable future. Second, given the arrival of the D-5 SLBM and the air-launched cruise missile--with their hard-target-kill capabilities--the argument that MX or SICBM is needed for the purpose of threatening Soviet silos (and forcing Soviet planners to wrestle with the basing problem as well) is no longer persuasive. Third, to the extent that the ICBM force complicates an enemy's attack and contributes to the survivability of the alert bombers, some or all of the Minuteman force can continue to perform that function, and do so at a significantly lower cost than MX or SICBM. Both programs could be cancelled or deferred without any loss of U.S. retaliatory capability.

The Future of Bombers

The case for the B-1B bomber and even the advanced technology (stealth) bomber is equally difficult to make on substantive grounds. Traditionally, the advocates of the manned penetrating bomber have justified it on four grounds. First, it is the one strategic system that is confidently known to work since, unlike missiles, it can be and is operated on a daily basis. Second, because the alert part of the bomber force (currently 30 percent of the total) can be launched on warning not only is it a survivable system; it is also controllable. Even after launch it is subject to recall. Third, with a crew in the system, the aircraft has unique operating flexibility. It can do reconnaissance and bomb-damage assessment; it can also attack targets of opportunity as it roams over enemy territory. Finally, some portion of the force can always be modified and used for non-nuclear bombing campaigns, as Strategic Air Command (SAC) B-52s were in the war against Vietnam.

However emollient these arguments may seem, there is a fly in each of the ointments. Bombers are regularly flown, but they cannot be tested directly against enemy defenses. Therefore, some degree of uncertainty must always exist about their ability to reach their targets. Cruise missiles launched at a distance from these defenses considerably reduce this uncertainty (or will when they improve in reliability) because of their large numbers and small size. Furthermore, the cruise missile married to a manned airborne launch-platform is no more nor less controllable than the manned penetrator. Aircraft have to be launched on warning because it is so difficult to protect them on the ground. Once launched, they are recallable, and would automatically return to base if not specifically ordered to cross their positive-control lines. Once these lines are crossed, however, the probability is very high that a large-scale raid involving many hundreds of weapons would take place. Indeed, bombers, with or without cruise missiles, make nearly certain that a U.S.

second-strike will be a large one. Accordingly, it is essential that the targets for the second-strike, and for the bombers as well as the missiles, be pre-planned with great care. The argument that bombers armed with nuclear weapons will perform a hunter-killer role is a romantic relic of World War II and totally out of keeping with current war plans. As to whether bombers such as the B-1B and the ATB, presumably to be acquired in relatively small numbers and at very high cost, will ever be used for conventional bombing missions: much will undoutedly depend on the circumstances. But as long as B-52s can fly, it seems unlikely that either the B-1B or the ATB would be withdrawn from its nuclear assignment for this purpose. Admittedly, the B-52s now remaining in the strategic bomber force are chronologically ancient as aircraft go. However, they have undergone a considerable amount of rebuilding and refitting, the Air Force has programmed $1.0 billion to improve the penetration capabilities of some, and another $2 billion to modify others as cruise missile carriers. Consequently, the chances are good that they will remain a part of the strategic nuclear inventory until at least the end of this decade. Between now and the early 1990s, the B-52Hs--which should do well against Soviet defenses until such time as a true Soviet AWACS is deployed in significant numbers--can hedge against uncertain reliability on the part of cruise missiles. Thereafter, it would seem logical to rely on cruise missiles to penetrate improved Soviet defenses and to replace the B-52s with a true missile platform rather than with the B-1B and the ATB.

Active Defenses

Although a powerful offense in the future is well assured with SLBMs and cruise missiles, is there not a role in strategic nuclear deterrence for active and passive defenses? The President, as others before him, has put forward the vision of a leakproof defense, protecting the entire country against ballistic missiles, that would replace the brutal threat of the offense as the road to peace and safety in the 21st century; and such a vision should not be denigrated. It is equally wrong to deny the desirability of exploring the various technologies that might lead to that end. The President's strategic defense initiative, in fact, is largely a repackaging and acceleration of programs instituted by previous administrations both to respond to Soviet efforts in this exotic realm and to explore the implications of the new technologies for the offense as well as the defense. What already has become evident, however, is that a perfect defense against ballistic missiles is not in the cards for the foreseeable future. What is worse, the effort to achieve it is almost certain to stimulate opposing planners to demand quite feasible additions of throw-weight, re-entry vehicles and decoys to their offense in order to assure continued coverage of U.S. target arrays. Among other things, the cost of the initial defensive effort combined with the cost of the subsequent competition between offense and defense would soon mount to staggering proportions. Agreements severely restricting the number and size of ballistic missiles might alleviate the demands on the defense. But they would undoubtedly have to entail even greater reductions than are currently deemed feasible. Furthermore, however remote the possibility of a leakproof defense against ballistic missiles, the effort to achieve it is bound to increase the investment in bombers and the proliferation of cruise missiles, neither system being affected by a defense against ballistic missiles. And experience with defenses against such aerodynamic vehicles is not encouraging. It hardly promises that these vehicles, especially when aided by stealth technologies, can be prevented from penetrating in large numbers to their targets. In an era of rapid technological change, planners never should say never. But they also need to recognize that, despite the improving ability to intercept offensive systems, the offense is likely to retain a significant cost advantage for at least several more decades, and thus will be well positioned to nullify any advances in the defense.

To abandon the President's goal of a leakproof defense is by no means to end the argument for pressing ahead with the strategic defense initiative and with upgraded active air defenses against bombers and cruise missiles. A somewhat less demanding goal than total protection is what became known in the 1960s as damage-limiting. It was already becoming evident by then that a disarming attack, whether on a first or second strike, would not be feasible with the offense alone, at least against diversified and well-protected forces. Planners therefore sought a substitute in the form of a combined offense and defense. The offense would eliminate as many of the enemy's warheads on the ground as possible; active defenses would intercept a large percentage of those that were then fired, and civil defense would mitigate the effects of the remainder that got through and detonated.

Damage-limiting requires a combination of offensive capabilities, ABM defenses, anti-bomber defenses, and civil defense shelters to protect people from at least the fallout effects of exploding weapons. Hence it is bound to be very expensive. However, none of the systems has to work perfectly in order to limit damage to a level deemed acceptable--often defined as 4 percent of the total population in the case of the USSR. Accordingly, a damage-limiting strategy can be used to justify an ABM system even though it may be substantially less than leakproof.

Although the strategy was found wanting and abandoned by U.S. policymakers in the late 1960s, it has been suspected that Soviet planners then picked it up. Whatever the case, the Soviet Union now has programs for ballistic missiles with improved hard-target-kill capabilities, civil defense, upgraded air defenses, and increasingly sophisticated ABM defenses, which include modernization of the system already deployed in the vicinity of Moscow. Whether independently or in mimicry, the administration has attempted to institute or accelerate comparable programs in all four areas.

Despite all this activity, for which the Kremlin bears a heavy burden of responsibility, the feasibility of obtaining a highly effective damage-limiting capability remains in doubt. The deployment of large SLBM forces on both sides makes certain that, even if an attack were able to eliminate all opposing ICBMs and bombers, a great many warheads would still survive and be ready for retaliation. Supposing a modern U.S. ABM system could generate a high kill probability (as high as .75) against 4,000 Soviet re-entry vehicles, that would still mean that as many as 1,000 warheads would be expected to get through. If aimed against cities, the minimum damage from their detonation would be on the order of 110 million prompt fatalities (or 48 percent of the U.S. population), and the effects could be far worse. Furthermore, just as the United States is already taking steps to make sure of being able to penetrate Soviet active defenses, Soviet planners can be expected to do likewise with respect to U.S. active defenses. If both sides go down this road of measure and countermeasure, the upshot will be a familiar one. Each will be able to cover its original target array as before, but at significantly higher cost than before. This hardly seems like a worthwhile investment for either.

Damage-limiting may hold out only a slightly more promising prospect than a leakproof defense. But what about the possibility of providing a ballistic missile defense (BMD) for the ICBM force, especially if future arms control agreements cannot seriously constrain Soviet hard-target-kill capabilities? Certainly this is the role in which an ABM system is likely to be most effective. Despite the fratricide phenomenon, not only might it force an enemy to allocate more warheads to each ICBM aiming point; ABM performance in defending ICBMs could be less exacting than in defending cities or other large, soft targets and still make a useful contribution. Some leakage, near-misses, and even hits can be tolerated where silos are concerned; they are not acceptable when heavily populated areas are the targets. Nonetheless, it must be asked whether this added protection would be worth either the high dollar cost--perhaps $40 billion in investment alone--or the consequences of having opened yet another arena for the strategic competition. The question becomes even more pertinent when it is recognized that ICBM warheads no longer are essential to the coverage of a comprehensive target list in the USSR. On balance, the benefits hardly seem commensurate with the costs and risks.

The Role of the Strategic Nuclear Forces

Some of these future costs may be avoided as a result of arms control agreements. But the history of arms control, which largely consists of ratifying what both sides did or did not want to do, hardly bodes well for any such cost-avoidance. More important, the alarms and initiatives of the past four years, the stress that arms control negotiations place on the central role of the strategic nuclear forces, and the insistence that there be a response to the Soviet modernization of its intermediate-range ballistic missile force (but not to the deployment of Backfire bombers or shorter-range missiles) have once again granted the strategic nuclear forces far more political significance than is their due. Indeed, herein lies one of the great paradoxes of this transitional era.

What defense planners have discovered after forty years of trying to adapt to the advent of nuclear weapons is that the strategic nuclear forces have a vital but extremely limited military utility: that of deterring their use by another party. Also quite evident, though planners would disagree among themselves about the precise implications, is that the nuclear "balance" is less delicate than it used to be, and therefore more difficult to destabilize than public rhetoric would suggest. Perhaps less appreciated, but almost certainly as true, arms control agreements of the future, as of the past, are likely to affect the development of the strategic nuclear forces only on the margin. To the extent that nuclear weapons are assigned the very limited political weight to which their limited military utility entitles them, moderation in the strategic competition (and perhaps its obsolescence) will follow much more from planning restraint on each side, a recognition that resources invested elsewhere will have a greater military utility, and that further additions to the strategic offense and defense are most unlikely to lead to any meaningful advantage. Benign neglect may be the best to be hoped for here as elsewhere.

Yet at the very time when nuclear weapons are finally being put into true military perspective, the propensity grows to use them for political purposes and to make them the measure of international power and status. Thus the insistence on nothing less than some form of equality in Soviet-American arms control negotiations. Thus the deployment of Pershing II and ground-launched cruise missiles, however great their cost and dubious their military worth. Thus the eagerness of the media to exploit nuclear issues and the inclination of bureaucrats in search of headlines to emphasize those issues beyond their intrinsic importance. The process is worthy of Parkinson.

Now as in the past the argument will be made that perceptions are what count in international relations, and that since perceptions about the nuclear "balance" will determine the behavior of friends and foes alike, they must be addressed on their own terms no matter how far they may be removed from the realities of power. Some, however, seem more perceptive than others. Neither Kim-il-Sung of North Korea nor Ho-chi-Minh of North Vietnam was much impressed by U.S. nuclear might, and Mao-tse-Tung defied the Soviet Union despite its manifest superiority in nuclear weapons. For those who are more gullible, it is certainly within the power of U.S. leaders to explain convincingly how limited is the role of nuclear weapons for military and hence for political purposes. And it is certainly cheaper to bring these perceptions into line with reality than to continue the fruitless and costly competition.

Tactical Nuclear Capabilities and Needs

A first step in that direction is to scrutinize and question all the strategic initiatives of the last four years. A second step, though of less budgetary significance, is finally to dispel the myths that envelop U.S. tactical nuclear capabilities. These capabilities are increasingly described as weapons of penultimate resort. Nonetheless, they are considered to differ from the strategic forces in that they have serious military utility and could somehow restore U.S. and allied fortunes in the event of a non-nuclear reversal.

Both propositions might have been true forty years ago when the United States had a monopoly of such devices. They lack any serious merit under present conditions. Despite efforts by the Army to reduce the yield of nuclear weapons and to postulate major limitations on their use, the fact of the matter is that nuclear explosives are so powerful and so numerous that traditional Army organizations and operational practices simply cannot be adapted to them. In particular, the notion that ground forces will be able to conduct traditional campaigns of fire and maneuver, advance and retreat, breakthrough and encirclement, and that organizations will be able to retain their coherence, discipline, and control in a nuclear environment boggles the imagination as well as the mind. A far more likely eventuality is that any tactical use of nuclear weapons would result in such confusion and panic on both sides to a conflict that all resistance would rapidly dissolve into chaos. In principle, such an outcome might be seen as favorable to the United States and its allies. But even if a small-scale use of nuclear weapons caused all the belligerents to collapse, it would also start a tidal wave of political consequences, none of which would necessarily favor the United States. And even if the odds are high that shock and chaos would be the dominant immediate effects of a nuclear first-use, there would remain a non-trivial probability of action being followed by reaction, with the result of a powder train leading to a rapid escalation of the exchange and disastrous damage to all the belligerents. There is even some reason to believe that if the United States and its allies were faced with a conventional debacle and made a first-use of nuclear weapons, they would find themselves losing in the resulting exchange even more rapidly and with even more horrendous consequences than if they had never taken this momentous step in the first place. It is no longer realistic, in any event, to pretend that the decision to use nuclear weapons would be taken without much consultation, agony, and delay or that the enemy could not preempt the decision.

Prudent planning, in these circumstances, would seem to call, not for more nuclear bombs and shells or a modernized inventory of enhanced radiation weapons (even though militarily they may be preferable to their predecessors), but for a redesign of the entire capability. Many of the existing launchers are vulnerable to non-nuclear as well as nuclear attack. Equally disconcerting, most of the aircraft and artillery that would be used to deliver nuclear bombs and shells, are also first-line non-nuclear delivery systems. Thus, any kind of a military alert is likely to deprive the conventional forces of some of their most valuable assets precisely at the time when they might be most desperately needed. Furthermore, despite the reductions in deployed weapons that have already taken place, and those that are still to come, the overseas nuclear stockpiles remain a truncated artifact of the era when these weapons were seen as a more efficient and advantageous way of conducting a traditional military campaign. Rather than perpetuate this obsolete, vulnerable, and dangerous capability, planners should convert it into a short-range copy of the strategic nuclear forces with a well-defined array of targets, more survivable launchers, and the ability to cover the target set at least once on a second-strike.

What this means as an operational matter is that aircraft and artillery in a theater such as Europe should be relieved of their nuclear missions, that the main responsibility should be vested in existing mobile missiles, and that the target array should be made up of those assets that would materially assist an enemy in an invasion of allied territory. As can be seen from table 6, the number of weapons needed to cover such an array on a second-strike would be relatively small compared to the current stockpile of some 6,000 weapons in Europe. Yet such a strike, if released all at once, would permit a blanketing or barrage attack all along the enemy's front as well as destruction of his main airfields and lines of communication. The enemy would have the power to destroy Western Europe in a first-strike, as he has had for many years, but he would not be able to occupy it.

Such a capability should be at least the equal of what is now deployed as a deterrent. Even more important, it would constitute far less of a drag on U.S. and allied conventional capabilities. It would also permit the establishment of a separate command and separate alerting procedures that could be activated independently of and, if desired, later than those of the conventional forces. Beyond that, it would be an acknowledgement that these launchers and weapons exist primarily to deter the first-use of nuclear weapons by another party. What is needed, in short, is not more resources or more sophisticated weapons but a recognition that the tactical nuclear capabilities, like their strategic counterparts, are severely limited as to the role they can play and the missions they can perform.

Conventional Capabilities

Logic suggests that after forty years of the quasi-nuclear age, the real coin of the military realm remain traditional conventional capabilities. Not only are they the only usable form of military power, as events since 1945 have so strongly underlined; they are also the kind of power in which the United States and its allies have the greatest comparative advantage. Europe alone outnumbers its prospective enemies in available manpower, industrial output, and technical skills. Nuclear weapons are the great levelers; conventional weapons are what really test a nation's resources of capital, labor, innovation, and determination. What is more, the United States and its allies can well afford to acknowledge these realities. Despite certain deficiencies, their conventional strength relative to that of the Soviet Union and its reluctant satellites is much greater than is generally conceded. For all practical purposes, indeed, both the administration and the JCS must tacitly accept this assessment. Even the JCS minimum-risk force would not require a radical expansion of the current U.S. conventional force structure, except in some quite marginal respects (as in the number of carrier battle groups), and as indicated in table 7, the administration's goals are more modest still.

The Administration View

The defense department has indicated during the last four years that it has a new way of looking at the conventional forces. It allegedly rejects specific contingencies for the purpose of assessing and planning these forces; it has spilled a certain amount of rhetoric about the need to prepare for a worldwide non-nuclear war, as though it could be defined separately from specific threats and theaters of conflict; it even talks about the importance of preparing for a war of indefinite duration. As a practical matter, however, the Reagan administration has behaved very much like its immediate predecessors. It has concentrated its resources for the ground and tactical air forces on the defense of Europe's central region (which is Germany), the oil states of the Persian Gulf area, and Korea, and on sustaining major conflicts in these theaters for up to sixty days. It has also allocated major resources to naval capabilities for protection of the sea lines of communication to these theaters, to what the Navy calls power projection (with carrier battle groups and amphibious forces) and to intercontinental mobility, principally in the form of long-range airlift.

Despite these efforts, which consume about 80 percent of total defense outlays (with the nuclear forces accounting for the remaining 20 percent), the prognoses for successful conventional defense and deterrence continue to be pessimistic. Exactly why this should be the case deserves some explanation. One reason is that when a crude comparison of forces is made, everything on the side of the Soviet Union and its satellites tends to be counted, while only those capabilities known to be in U.S. and allied units are included in the comparison. Thus, tanks and aircraft parked in storage areas, riverine craft that would be swamped in the open ocean, destroyers in the Caspian Sea, and all those ground and tactical air forces facing China are treated as though they would be available for immediate use against the United States and its allies. It is hardly surprising, in the circumstances, that the prospects for a successful defense in one major theater, much less in two, are considered to be poor.

Static comparisons of weapons and personnel are not the only basis for pessimism. Even the more sophisticated analyses, which focus on specific theaters, indicate that U.S. and allied forces would not be able to hold out for long against an enemy onslaught, whether by the Warsaw Pact in central Europe, by Soviet units racing down through Iran, or by North Korean armor attacking across the Demilitarized Zone. What is still more discouraging, despite the costly programs of modernization now underway, the odds in these theaters do not seem to shift in any significant way. Hence the demand for still more sophisticated aircraft, missiles, and munitions, and for still larger defense budgets. Because of the alleged numerical superiority of opposing forces, whether of men or materiel (or both), technology must deliver extraordinarily high kill rates in every U.S. weapon. And because the number of these increasingly costly weapons that can be bought not surprisingly declines, the kill rates must rise still further. This is a vicious circle indeed.

Perhaps it is the only course open to the United States and its allies. But there are a number of grounds on which to question the prevailing pessimism, the nature of existing deficiencies, and the currently preferred remedies. What needs to be recognized at the outset is that the contingencies on which the darkest forecasts are based almost always are biased in favor of the enemy. They are the worst of the worst cases. Central Europe, for example, appears so easy to overrun because the Warsaw Pact is allowed to mobilize and deploy a large number of highly combat-ready units in a very few days, while NATO is permitted very few reinforcements to its forces already stationed in West Germany. Yet the evidence suggests strongly that the Pact either would need a great deal more time in which to generate the specified threat, or would have to settle for a much less combat-ready and reliable capability. In the first eventuality, NATO would be able to deploy many more of its not inconsiderable assets than is generally assumed; in the second, it would face a significantly less awesome attacker than is usually postulated. It is worth remembering in this connection that as much as a third of the enemy force would consist of East German, Czechoslovak, and Polish units, the trustworthiness of which must be in some doubt. Other factors such as the Soviet practice of exercising with older equipment while the new materiel is kept in warehouses, the tradition of training recruits within the operational units, which lowers readiness and causes turbulence as individual soldiers begin and end their terms of service, the dependence on the civilian economy for trucks and the use of the military each autumn to assist in the harvest, and the paucity of maintenance assets in the forward forces also raise questions about Soviet combat effectiveness, particularly during the early stages of an attack. Indeed, when these and other factors are taken into account, NATO has a significantly higher probability of conducting a successful forward defense of West Germany than the pessimists allow.

Improvements Needed

To say this, however, is not to argue that either in Europe or in other critical theaters the United States and its allies can have high confidence in their ability to frustrate an attack. Their main weaknesses and the remedies for them are relatively easy to identify. One of them could be quite cheap. As already noted, a number of the European planning contingencies emphasize the ability of Warsaw Pact forces to mobilize and deploy previously cadre divisions as fully combat-effective units in a few days or weeks. Still others endow Soviet divisions with an almost supernatural power to overcome difficult terrain in northern Iran. Most of them contain these exaggerations because of the reasonable concern that U.S. and allied leaders will act very belatedly to early and ambiguous indications of enemy activities and plans. To compensate for these anticipated delays, which rule out gradual mobilization and deployment, planners truncate the amount of warning they would receive and establish "requirements" for active-duty units ready to deploy on short notice, expensive overseas pre-positioned materiel, and even more expensive airlift. However, because all three are so costly, and because reserve units and fast sealift cannot compete in the short time allegedly available, deployment goals are never reached and increasingly empty nuclear threats are substituted for realistic and attainable defenses.

It may indeed be the case that political leaders will always procrastinate when confronted with ambiguous warning, although President Kennedy, at the outset of the confrontation over Berlin in 1961, deployed U.S. reinforcements to Europe before the Soviet side made any comparable move. It is also reasonable to expect that these same leaders will be cautious when they are not told about the cost of their caution or the alternatives, and have good reason to believe, especially in NATO, that when the deployed forces are alerted, they become even more heavily nuclearized than in their peacetime condition.

Is there any way out of this vicious circle? A first, obvious, and inexpensive option is to tell U.S. leaders that there will almost always be a great deal of information about the activities of opposing forces, and that any major change in the pattern of these activities will be promptly known--known perhaps as many as three months before an attack. Second, they should also be advised that, even though the warning may be quite unclear as to the precise consequence of this change, a number of useful alerting and packing up steps can be taken that save time but do not necessarily give the appearance of a large-scale mobilization and deployment. Third, a more costly step would be to begin programming more regular but randomly spaced exercises related to mobilization and deployment but not tied to any crisis or warning. Fourth, the redesign of U.S. and allied tactical nuclear capabilities should reinforce the willingness of political leaders to react more promptly to early signs of opposing mobilization and deployment, since those leaders would no longer have to accept the simultaneous nuclearization of the conventional forces and the loss of valuable non-nuclear assets that would go with it. Finally, because the time for mobilization could be measured in weeks and months instead of a few days, reserve as well as active-duty ground and tactical air units could be deployed, and much greater reliance could be placed on efficient fast sealift than is now the case.

Unfortunately, this is not the direction that the United States and its allies are taking. Because of the assumption that the enemy could attack with so little warning, reserve forces are treated as poor relations, and emphasis is placed on such costly expedients as prepositioned equipment in Germany, ships loaded with equipment and supplies in the Indian Ocean on permanent station, and long-range airlift--the only recourse for the deployment of men and materiel during a period of less than two weeks. Just as staggering as the cost of this kind of response is the speed and precision with which it must be executed. Yet precisely because of its magnitude--entailing the deployment to Europe alone of at least six large divisions and sixty tactical fighter squadrons by the United States--and the political repercussions that would surround such a movement, it almost certainly can never be rehearsed on an adequate scale. Since time need not be of the essence, and since existing overseas deployments, prepositioned materiel, and airlift provide an adequate hedge against the short-warning attacks that prospective enemies could actually mount, other more practicable and less costly options need to be entertained.

To enable the United States to react more effectively to potential military crises will not by itself ensure the high-confidence conventional defenses that are surely in everyone's interest. It is regrettably easy to imagine a contingency in central Europe during which, over a period of three or four months, the Warsaw pact could put together a large enough assault force (in the realm of 110-120 divisions) to overtax existing NATO capabilities even if they were fully mobilized and deployed. It takes only a modest further step of the imagination to visualize one or more conflicts occurring in other vital theaters at about the same time as an attack in Europe--an eventuality that would confront the President with appealing choices, whether he had existing capabilities at his disposal or even the slightly larger forces sought by the administration. The Pentagon has been in the process of adding about 150,000 people to the U.S. military establishment, primarily for the Navy and the Air Force. But it would be excessively optimistic to expect a major expansion of the active-duty forces, and particularly of the manpower-intensive ground forces, as long as conscription is ruled out in peacetime and the military services must depend on a system of voluntary enlistment that is limited in the numbers that can be recruited by lower birth rates, rising military standards, and (it is to be hoped) a growing economy.

Fortunately, such an expansion does not seem necessary. The National Guard and Reserve now consist of more than a million men and women. A significant portion of this reserve, admittedly, is dedicated to rounding out several understrength active-duty Army divisions in the event of an emergency and to providing the support forces so necessary to the conduct of a conventional conflict of any significant duration.

Even so, with modern equipment, additional training, and higher standards, more than 14 divisions and 42 fighter-attack squadrons could be mustered from the national Guard and Reserve and used along with active-duty forces in the event of a greater-than-expected threat in one theater or multiple and more or less simultaneous contingencies.

On the Korean peninsula, a belt of obstacles and fortifications built south of the Demilitarized Zone makes it difficult for the North Koreans to repeat their early successes of the 1950 war. A similar barrier along the frontier between the two Germanies would provide a similar hedge against surprise attacks by the Warsaw Pact and would do much to dissipate the supposed Soviet superiority in tanks and armored vehicles. Additional close air support for the ground forces, acquired both from the reserves and from trading in the current surplus of Air Force capability for air superiority and interdiction missions deep in Eastern Europe would also increase confidence that heavy initial attacks on West Germany could be met and defeated.

None of these measures would win popularity contests in the Pentagon. The military services see the National Guard and Reserve as competitors for resources and as threats to their integrity, for if they improve significantly in combat effectiveness and readiness to deploy, yet remain cheaper than active-duty units, Congress will be tempted to trade these active-duty assets for a larger number of reserve capabilities. The Air Force, still jealous of its independence, resists the idea of supporting the Army and prefers to fight its own war to gain command of the air and destroy enemy lines of communication through interdiction. And the technologists in and out of uniform dream of silver bullets that will magically dispose of enemy second and third echelon forces, regardless of whether the first echelon, with mundane artillery and tanks, is smashing through U.S. and allied defenses. To produce the necessary changes in priorities will obviously require more than a willingness to fund all requests and a lawyerlike defense of clients regardless of the merits of their claims.

Naval Diversions

Nowhere is this more evident than in the case of the U.S. Navy. In a conventional campaign, especially one of significant duration, naval forces have two vital functions to perform. One is to make sure that the sea lines of communication to the theaters of war remain open, since 95 percent of the tonnage for these theaters is likely to go by sea. The other is to project the power of ground and tactical air forces from sea-based platforms to targets on land in those areas where the much less vulnerable and costly land-based ground and tactical air forces would not be able, at least initially, to operate.

Just as with the Air Force, but fortified by the traditions of St. Vincent, Nelson, Hornblower, and Mahan, the U.S. Navy is wedded to the principle of destroying enemy forces as the basis for the conduct of other missions such as the safe delivery of cargoes to foreign ports. But as the British recognized during World War I and World War II, if the enemy fleet stays in or close to port, the cost of going in and destroying it can become unacceptable. The alternative, though less glamorous, is to hem in the enemy by means of a long-range blockade. In the era of the attack submarine, both the offensive strategy and the blockade necessitate the formation of convoys. But the blockade, which can be accompanied by offensive forays, forces the enemy fleet to sally forth from its protective cover, if it wishes to have any impact on the war, and fight at a disadvantage.

This, indeed, is precisely the problem that the four Soviet fleets can be obliged to face. Of these fleets, the two in the Baltic and Black Seas would have to pass through narrow exits controlled by U.S. allies in order to attack the main lines of communication between the United States and Europe. The other two, the Northern Fleet based in the area of Murmansk and the Pacific Fleet located primarily at Vladivostok are somewhat less confined. Even so, the Northern Fleet would have to come round the North Cape, run down the Norwegian Sea, and pass through one or more of the channels that separate Greenland, Iceland, and the United Kingdom in order to attack the main Atlantic sea lanes. The Pacific Fleet would face the still more difficult task of escaping from the Sea of Japan and the Sea of Okhotsk through passages controlled for the most part by Japan.

This geography establishes three principal tasks for the navies of the United States and its allies. The first is to construct barriers in the various chokepoints, with mines, submarines, and patrol aircraft, that will exact a toll from enemy ships and submarines attempting to reach the North Atlantic and Western Pacific. The second is to provide protection for the convoys of merchant ships against air attacks and those submarines that get through the barriers. The third is to make sure that Soviet naval forces are not able to evade the barriers for any extended period of time by establishing home ports in such areas as Vietnam, Angola, and Cuba.

This last task could well require the use of carrier battle groups and amphibious forces. It is also quite plausible to believe that, despite U.S. efforts to acquire land bases in the vicinity of the oil states of the Persian Gulf, any initial attempt to gain a lodgment for U.S. forces in the area might have to be made by amphibious forces covered by the air power of several carrier battle groups. Whether the carriers would also be needed to protect land operations in Norway or defend convoys in the Atlantic and Pacific is much less clear. In all three instances land bases would be available to provide the necessary air cover.

U.S. allies maintain substantial navies of their own. They can certainly assume responsibility for sealing off the Soviet Baltic and Black Sea Fleets, and for the protection of merchant shipping in the Mediterranean and the Indian Ocean. They can also provide escorts for at least 34 convoys a month in the Atlantic, Mediterranean, and Pacific. The U.S. Navy, with a fleet of 535 ships (counting auxiliaries and underway replentishment ships)—which would include twelve carrier battle groups, the amphibious lift for a full Marine Amphibious Force, 97 attack submarines, and eighty escorts for convoy duty—would be able to establish barriers against the Soviet Northern and Pacific Fleets, escort eight large convoys a month in the Atlantic and Pacific, and project power with carrier battle groups and amphibious forces simultaneously in three contingencies such as might be encountered in the Persian Gulf, Cam Ranh Bay (in Vietnam), and Cienfuegos (in Cuba).

Despite these impressive capabilities, the administration wants more. Not only is it engaged in the rapid modernization of the existing fleet; it is also bent on an expansion that will add 3 more carrier battle groups, 4 battleships, 15 attack submarines, what amounts to another brigade's worth of amphibious lift, and the proliferation of the Aegis air defense system throughout the fleet.

Neither the administration nor the Navy explains in any serious way why these additional forces are needed. Since the Navy does not like to relate its force "requirements" to planning contingencies, one is left to speculate that submariners found 110 attack submarines a convenience in World War II and have stuck with that number ever since, and that since a number of guided missile destroyers will soon have to be replaced, the new ones might as well have the Aegis system on board, even though each one adds $500 million or more to the cost of the ship. Exactly why more amphibious lift is being acquired is even more obscure. The Marine Corps would prefer to operate with two Marine Amphibious Forces (MAFs), even though it has not made an opposed landing since Inchon in Korea in 1950. Perhaps the principle is quite simple: that it is more comfortable to have the lift for 1-1/3 than for one MAF, despite the added investment cost of $8 billion.

The three additional carrier battle groups, admittedly, have been justified, but on shifting grounds. The reasons variously advanced have been: so as to maintain a peacetime presence in at least three separate waters (the Mediterranean, the western Pacific, and the Indian Ocean); because national policy requires the stationing of two carriers in the Mediterranean and three in the western Pacific, which necessitates a total of fifteen (for purposes of rotation); or because an attack on Murmansk or Vladivostok will be needed early in a conflict to obtain command of the seas and to give the President the option of escalating a conventional war "horizontally" in the event of a Soviet attack on an area of vital interest to the United States. As a matter of fact, however, no national policy has required a naval presence in certain oceans or the maintanence of five carriers on overseas stations in peacetime. Rather, the Navy has initiated these deployments and then argued for their retention as a way of justifying a particular force structure. As for the offensive against Murmansk or Vladivostok, three points about it seem reasonably clear. First, to the extent that such an attack might have merit, it could be conducted as readily by long-range, land-based aircraft as by carriers, despite the propensity to argue that only naval forces should be allowed to attack naval targets. Second, even a brilliantly executed attack on one of the main Soviet naval concentrations would have little assurance of eliminating the main enemy threat to U.S. and allied sea lines of communication, namely the attack submarines. Third, if the attack depended only on the power of three carrier battle groups, the odds are rather high both that all three would be disabled or sunk and that a large part of the Soviet fleet would survive. Indeed, if the Navy is determined to sail into harm's way with surface combatants in the Norwegian and Barents Seas, it had better do so with at least nine carrier battle groups. However, this would mean that with a total force of fifteen carriers and a wartime on-station rate of 75 percent, very little in the way of naval air power would be left for other and possibly more important missions. The irresistible conclusion, in sum, is that either the Navy should forget about Murmansk and Vladivostok as targets for air attack during the early stages of a conventional conflict and settle for twelve carrier battle groups (as it has done before), or it should ask for twenty-four of them. A force of fifteen carrier battle groups seems to be the wrong size, whatever the strategy.

Potential Savings

More military capabilities always seem nice to have, but a substantial case can be made that the programs of the past four years and the plans for the coming five do not mesh very well with what can be identified as the main U.S. defense needs of the future. The Reagan administration has certainly done some things that needed doing. It has continued the modernization of weapons and equipment that had already begun in the Ford and Carter administrations. It has increased the supply of spare parts throughout the three services. It has built up stocks of modern munitions. It has struggled manfully to reduce the backlog of maintenance and repair, even though the services seem to keep an endless supply of items to add to the backlog. At the same time, however, it has placed more emphasis on the amount by which the defense budget has increased than on what the budget has bought. One consequence is that hard choices have not been made among competing weapons. Another is that mundane but important capabilities have been underfunded or ignored simply because they have lacked the sponsorship of a military service. Overall, the budgets have ballooned more rapidly than warranted either by external factors or by earlier parsimony, and they are now larger than is needed to cover the deficiencies that can be foreseen.

Nowhere is this more evident than in the funding of the strategic nuclear forces. High accuracy may be desirable for a number of purposes, including the reduction in nuclear yields it permits, and even a prompt hard-target-kill capability may still have a role to play in a second-strike force. But the administration has not adequately explained why it needs the MX, the D-5 (Trident II) which will be much less vulnerable, and the slower but still very accurate cruise missile. Although Soviet active air defenses still remain quite porous to low-altitude penetrators of the size of the B-52, it is undoubtedly prudent to anticipate the Soviet deployment of a look-down, shoot-down capability and begin deployment of penetrators with smaller radar cross-sections than the current generation of bombers. But it is surely a lack of discipline rather than a demonstration of prudence to be proceeding simultaneously with the deployment or development of the air-launched cruise missile, the B-1B bomber, an advanced cruise missile, and the advanced technology (stealth) bomber. Similarly, it has been agreed for more than a decade that, despite the ABM treaty and the closing-down by the United States of the one ABM site permitted by the treaty (as amended), a vigorous program of research and development should be pursued on the more traditional methods of intercepting ballistic missiles as well as on lasers and other systems of directed energy mounted primarily on platforms in space (for the purpose of disabling ballistic missiles shortly after their lift-off). But it is quite another matter to surrender these efforts and their funding to the unbridled optimism of singleminded enthusiasts. Leaving aside the impact of major ABM programs on the strategic competition, it is hard to believe that the Strategic Defense Initiative (actually a combination of research ventures already under way) would not benefit from a much less rapid growth in funding than has been projected for it.

As shown in table 8, a quite modest reduction in the duplication and excessive pace contained in the administration programs for strategic nuclear modernization and improvement would result in budget authority being reduced by $49 billion and outlays by $41 billion between FY 1986 and FY 1989. Even with these cuts, the United States would be much better able to cover a comprehensive target list than is now the case.

The tactical nuclear capabilities are more in need of restructuring than they are of new weapons, especially weapons that are a free good as far as the defense department is concerned, but which must be funded by the Department of Energy. The conventional forces, on the other hand, are certainly due for a gradual modernization and some expansion, but hardly along the lines being pursued by the administration. For one thing, larger funds have been requested than the three services can efficiently obligate in contracts. For another, the pace of acquisition is such that difficult choices will have to be made by future administrations. Either they will have to reduce the defense industrial base because, so much having been done so fast by this administration, there will be a considerable hiatus in the real need to replace the current weapons inventory. Or the turnover of that inventory will have to begin before the useful lives of the weapons (averaging about twenty years) have ended. Finally, it should be evident that the allocation of resources has been determined more by service traditions and the inclination of each to prepare for its own preferred war than by integrated national security needs. The Army has designed its new tank, the M-1, independently of the intercontinental airlift available to move it, and struggles to obtain close air support for its divisions by building fragile attack helicopters that are more costly than the sturdier fixed-wing aircraft for which the Air Force has the primary responsibility. Although close air support aircraft deliver enormous firepower and are the acme of maneuver warfare, the Air Force concentrates most of its tactical resources on preparations to wage a campaign of deep air superiority and interdiction that, by most accounts, will have a major impact on the land campaign only after the decisive ground battles have been fought--battles, incidentally, on which close air support aircraft could have an immediate and direct effect. The Marine Corps, doubtful that the Navy will provide its amphibious operations with carrier-based air cover, or that carrier air wings will ever be designed or trained to give them the close air support needed for a forced landing against a well prepared enemy, has looked for its salvation to the return of the battleship with its big guns and the acquisition of the inefficient AV-8B aircraft, which can at least take off and land on some of the larger amphibious ships and thus substitute for carrier-based aircraft. Meanwhile, the Navy, like Mallory, climbs its Everest of the 600-ship fleet because it is there.

Free enterprise has its place, but its place is not in the Pentagon. A regulation of uncontrolled entrepreneurship not only would permit major savings of budget authority and outlays; it would also make possible the funding of larger ground and close air support forces, both of which are needed far more than additional long-legged fighter-attack aircraft and their carrier-based equivalents.

Additional savings can be made by substituting fast sealift for further airlift and by introducing new criteria to determine the need for modern munitions.

The Air Force claims that a national objective requires it to seek an intercontinental airlift capacity of 66 million ton/miles a day. This compares with the 32.4 million ton/miles a day it currently can lift, primarily with seventy C-5A and 234 C-141 aircraft. However, even a doubled capability--much of it to be provided by the hybrid C-17 aircraft--would allow the delivery of fewer than 15,000 tons a day to central Europe and around 7,000 tons a day to the head of the Persian Gulf, substantially less than would be needed by the three services in either theater during the deployment times supposedly available.

There is another paradox here. The national "requirement" arises from those contingencies that postulate superhuman efforts on the part of the Soviet Union and its satellites and sluggish reactions on the part of the United States. However, if it is assumed that U.S. leaders will always procrastinate during a crisis, 66 million ton/miles a day understate the amount of intercontinental airlift that should be acquired, especially in the event of two or more simultaneous contingencies. On the other hand, if more realistic contingencies are assumed, and U.S. leaders react promptly, current airlift combined with a buildup of fast sealift--much cheaper to acquire and operate--would be able to satisfy expected needs. In the circumstances, it makes sense to review these choices and examine the assumptions on which they are based rather than to plunge into the costly expansion of airlift advocated by the Air Force.

As for modern munitions, when they can cost anywhere from several thousand to several million dollars a round (as in the case of the Phoenix missile for the Navy's F-14 fighter), it is essential to determine with some precision how many of them we might need in a major conflict. At present, some of the "requirements" for war reserve stocks are based on the number of targets that might be encountered in one or more theaters. More often, however, the "requirement" rests on daily consumption rates extrapolated to as many as 180 days. What is more, these daily rates have undergone a substantial inflation based on the last Arab-Israeli war--when there were seven days of intense firing--which may or may not be representative of a more extended campaign in which consumption has become more disciplined. It is hardly surprising, faced with this almost open-ended "requirement," that the administration should have put so much money into war reserve stocks, have made so little apparent progress in their buildup, and received so much criticism for underfunding readiness.

While much of this criticism has been unwarranted, it is unfortunate that the Pentagon has not responded to it more effectively. Rather than accept the war reserve objectives of the military services as sensible, senior defense officials need to take two steps. First, they should review the assumption that Soviet and satellite forces have accumulated war reserve stocks for a worldwide campaign of long duration. Such an assumption is hardly consistent with such considerations as the emphasis of Soviet military leaders on fighting short, blitzkrieg-style wars, and their relatively recent conversion to the possibility that a non-nuclear conflict will not quickly escalate to a nuclear exchange. Furthermore, their military budget, large though it may be, does not appear to be nearly large enough to allow the rapid accumulation of the enormous war reserve stocks that would be required to operate the 194 divisions, more than 5,000 tactical fighters, and 1,000 ships that, according to the Pentagon, constitute the current Soviet order of battle. Even if the actual order of battle is much more modest, as is probably the case, the USSR, like the United States, almost certainly has difficulty in stocking modern munitions for more than a month of intense conflict at current budgetary levels.

As a second step, officials need to consider whether modern munitions will prove as lethal as they are supposed to be. If they are, the armed forces will probably have run out of targets well before 180 days have elapsed. If they are not, if they are only a modest improvement over "dumb" munitions, the question arises as to why, at such great cost, the services want to substitute them for the much cheaper bullets, shells, and bombs with which they are already quite well supplied. The truth may lie somewhere in between. Should that be the case, considering the large investment already made in the current generation of "smart" munitions, a strong case can be made for slowing down rather than accelerating further purchases and waiting until consumption rates are brought into line with targets before deciding on what the objectives for the war reserve stocks should be.

Table 9 illustrates how increases and decreases could be made in programs for the ground, tactical air, naval, and rapid deployment forces in order to ensure that future capabilities are better integrated and more suited to potential threats. Table 10 measures the effects of making selected non-nuclear and nuclear decreases retroactive to FY 1983 in the form of congressional rescissions.

Table 11 estimates the impact of holding future munitions procurements at FY 1985 levels. As is evident, large savings can still be made in defense budget authority and outlays for the conventional forces without any reduction in the ability of the United States to fulfill its international obligations. Together with the savings that are possible in the programs for the nuclear forces, they would permit (as shown in table 12) a major contribution to the reduction of the federal deficit without reducing the effectiveness of the U.S. defense establishment.

Congressional Action

Realistically, however, Congress has proved unable or unwilling to cancel major programs without the initiative of the executive branch. The Reagan administration has made much of the reductions it has taken in previous defense budgets before they were ever submitted to Congress. But it is noteworthy that the services have given up none of their more cherished aspirations in this process of alleged economizing. Congress, for its part, has been remarkably receptive to the administration's main requests. It began the decade, as can be seen from table 13, by adding to the original requests, and only since FY 1983 has it throttled back on the rate of real growth in defense budget authority and outlays. Furthermore, despite this swing toward modest restraint, no major weapon system has been cancelled. Indeed, the real growth in investment, especially when compared with that of the operating and support accounts (as shown in table 14), has been impressive. Not surprisingly, even the MX missile survives, however precariously, despite having become the annual symbol of opposition to the nuclear buildup.

This is not to say that Congress has refused to cut the investment accounts. In FY 1985 alone, it reduced the administration's original request by $20 billion, of which $10 billion came out of the procurement account. Admittedly, some of these reductions were belatedly volunteered by the three services, but only as a result of congressional determination to make cuts and pressure on the President. What the reductions indicate, however, is that without leadership and cooperation from the executive branch, and the defense department in particular, Congress finds it virtually impossible to do more than skillfully whittle away at specific line items in the defense budget and to stretch out programs rather than cancel them. Unless or until economic problems worsen as a consequence of the federal deficit, that may continue to be the only plausible outcome to anticipate from the coming budget debates. The White House, for its part, has rejected the proposals from the Office of Management and Budget (OMB) to wring $58 billion or more out of defense spending during the next three fiscal years. It apparently intends to protect as much of its huge investment program as possible, offer a pretense of reductions, and accept defense cuts only under extreme pressure from Congress.

Budget Strategies

It must remain uncertain whether defense can be expected to make significant contributions to reductions in the federal deficit under these conditions. In principle, large savings are still possible since so much fat has been incorporated into the administration's programs. In practice, it will not prove easy to produce major reductions, forgo the cancellation of the more redundant and marginal weapons (some of which are now protected by multi-year procurement contracts), and maintain a balanced military establishment. In such an establishment, military and civilian pay would be increased by the expected rate of inflation, the combat effectiveness, strategic mobility, and sustainability of existing forces would be maintained, and modernization of the weapons inventory would still proceed, but at a much slower pace.

To test the possibilities of balance and cuts, but few cancellations, three illustrative budget plans are examined, each covering the next three fiscal years (FY 1986, FY 1987, and FY 1988). Each is compared with the administration's budget plan for these same three years, as shown in table 15. In the first, budget authority is allowed to increase in real terms by 3 percent a year from the FY 1985 base of $285.2 billion. In the second, the real increase is held to one percent; in the third, a freeze is imposed, although increases to compensate for inflation are allowed.

Exactly how these hypothetical controls on budget authority would affect defense outlays depends on two factors: the degree to which expenditures would result from budget authority obligated but not spent in prior years; and the distribution of the new budget authority among the major appropriation accounts. Beginning in FY 1986 (October 1, 1985), the backlog of defense budget authority will amount to about $235 billion. Of that total, on the order of $100 billion will spend out in FY 1986 unless Congress dictates major rescissions in prior-year budget authority. The spendout thereafter will be determined to a large extent by the size and composition of the authority added to the backlog in FY 1986 and FY 1987. If the budgets for those two years, as well as that for FY 1988, are heavily weighted toward procurement, as they have been during the last four years, the backlog will continue to grow rapidly, a stream of essentially uncontrollable outlays will constitute a major component of future defense spending, and first-year outlays from new budget authority will be relatively low. If, on the other hand, procurement (and to a lesser extent research, development, test, and evaluation and military construction) are stretched out substantially, the percentage of new budget authority spent in the first year will be relatively high, and future-year outlays will grow less rapidly.

Because defense spending has these characteristics--with what are known as fast and slow money--any strategy for reducing the defense budget will be affected by both the magnitude of the savings that are desired and when they are wanted. If large savings are sought, and needed in the next three years, it will be difficult not to cut the fast-money accounts, which consist of military and civilian pay, operation and maintenance, family housing for the military, and the large management funds. However, if the demand for defense savings in the first and second years is relatively modest, and the objective is as much to develop a sustainable budget course as to produce short-term savings, cuts in budget authority should concentrate more heavily on the slow-money accounts, that is, procurement, research, development, test, and evaluation, and military construction.

What can be done within the overall constraints that have been hypothesized? The most significant reduction proposed by the administration comes from the assumption that pay for the civilian workers of the defense department (more than a million strong) will be reduced by 5 percent in FY 1986. This will also reduce budget authority in FY 1977 and FY 1988, since future pay increases will be computed from this lower base. An apparent reduction is also made in the request for military pay. But this is achieved by transferring part of the originally planned increase to FY 1985 (thereby increasing the FY 1985 deficit) and providing a smaller increase in FY 1986. Other savings result from computing lower inflation rates for defense goods and services than were assumed in earlier budget estimates, and by postulating that the price of the fuel consumed by defense will continue to fall. Only the most marginal changes are proposed in the size and composition of the goods and services that the department had originally decided to purchase. Because, for all practical purposes, the new budget series adheres closely to the five-year defense plan of a year ago (even though the totals look smaller), savings in outlays are modest during the next three years, and both budget authority and outlays continue their substantial real growth. Some of the increase occurs because, while major procurement begins to taper off, minor procurement--which includes a number of so-called readiness items such as spare parts and munitions--grows and takes up part of the slack, as new and more sophisticated weapons enter the inventory and require service. Operation and maintenance also continues to increase in real terms, and for the same reasons. An alternative approach would take the following steps:

1. allow military and civilian pay to increase by the estimated rate of inflation;

2. freeze in real terms the appropriation accounts for research, development, test, and evaluation, military construction, and military family housing;

3. freeze selected items in the operation and maintenance account (flying hours, ship and land operations, equipment modernization, and real property maintenance activities) in real terms, since they are already being funded at high levels; and

4. cut the procurement account by whatever additional amount is needed to bring total budget authority in line with the aggregate amount required by the specified rate of real growth.

Table 16 shows what the appropriation accounts would look like for the three different rates of real growth (zero, one, and three percent). Also estimated are the outlays that would result from prior year obligations and this particular mix of cuts in the appropriation accounts.

Obviously, the reductions about which there would be the greatest outcry are those that would fall on procurement and research, development, test, and evaluation (RDT&E). Generally speaking, however, these reductions would be much less damaging to the overall health of the defense establishment than they sound. They would, after all, occur in the wake of unprecedented, peacetime, real growth in these accounts during the past four years. In the case of procurement, as table 17 shows, even the most severe reductions (those required by the "freeze" budget) can be accommodated by the cancellation of the MX missile and a small number of other programs, the stretchout of other major procurement, one package of rescissions and 1985 levels of effort in the acquisition of modern munitions. Much of the reduction in RDT&E

can come from an end to the growth in funding for the strategic defense initiative and a stretchout of the development of the advanced technology bomber.

The contention will no doubt be made that such stretchouts will prove particularly damaging as applied to procurement. Allegedly, not only will they harm the essential and finely calibrated buildup launched in 1981 and drive up costs; they will also send a wrong signal to the Soviet leadership and undermine the administration's efforts to negotiate a reduction of nuclear arms. However, it can be asserted with at least as much plausibility that the pace of the buildup has been excessive to the threat and the need, and that it should be slowed independently of fiscal considerations. Furthermore, the increased unit costs that will result from the stretchout of procurement and RDT&E are likely to be more than counterbalanced by a quicker solution of the economic problems caused by large federal deficits and by future savings in modernization programs, as the useful lives of major weapons are extended to the appropriate average age of twenty years. Finally, Soviet leaders will probably be less impressed than the President and the Secretary of Defense by the notion that increased defense spending automatically leads to increased political and military capability. Larger budgets, in their own experience, have not seemed to improve their lot or their bargaining position.

Institutional Change

Regrettably, it remains doubtful whether the United States will fare any better, despite the resources being lavished on defense. In large part, this failure results from too many programs being funded too rapidly. Duplication is excessive, and the misallocation of funds is such that carrier battle groups and penetrating bombers receive the lion's share of the appropriations, while the more essential ground forces, close air support aircraft, and fast sealift do substantially less well.

In the short-run it may be necessary to accept these commitments while minimizing their costs. But several things will surely need doing in the longer-run to ensure a more sensible and orderly evolution of the U.S. defense establishment. At the root of the current failure is a decision-making system that has become a parody of modern defense management. The original system, mostly installed in the early 1960s, was the fruition of President Eisenhower's recognition that neither the military services nor the JCS would be able or even willing to resolve their unending disputes about budgets, objectives, and forces; that unification of the services would solve nothing, since the advocates of airpower, submarine warfare, tanks, and missiles would continue their advocacy, even though dressed in the same-color uniforms (usually and derisively considered to be purple); and that only a secretary of defense with the power to take initiatives and resolve disputes could hope to bring the many combatants under control. This recognition led to successive revisions of the National Security Act of 1947. Those revisions, in turn, permitted first Thomas Gates and then Robert McNamara, strongly supported by their respective Presidents, to become the true leaders of the Pentagon.

Inevitably, such an exercise of power led to bitterness on the part of the services. Melvin Laird, upon becoming secretary of defense in 1969, attempted to dispel this hostility by endorsing the concept of participatory management. After only a year of decontrol, however, he began to reverse the process. Until 1981, the trend toward more centralized planning resumed, though unevenly. Since the advent of the Reagan administration, however, not only has decontrol come back into vogue; there has been virtually a full-scale retreat to the feudal reign of the 1950s that President Eisenhower worked so hard to end.

The planning-programming-budgeting system (PPBS) still exists, but the services dominate the process, and no one seriously challenges their priorities. A small number of programs--MX, the B-1B, and the 600-ship navy--are artifacts of the 1980 presidential campaign and Mr. Reagan's criticism of the Carter administration and, along with the strategic defense initiative, are protected from service skepticism, bickering, and cuts. But the bulk of what is being funded, including the redundant weapons, reflects long-standing military wishes and a long-standing military propensity to disregard costs and marginal utility in expressing those wishes. Objectives are set, "requirements" established, and the bill presented. The secretary of defense and his deputy preside over the process and, like the good fairies, set a limit on the number of wishes that will be granted in a given year. But it is rare that they lead, and even rarer that they choose. With so much budget authority to disburse and so little sensitivity to opportunity costs, choice may not even seem necessary. The upshot is that, unless discipline is restored to the decisionmaking process--and it is already late in the day for that--one of two eventualities can be anticipated. Either the rapid accumulation of weapons will continue, creating a growing demand for their maintenance, modernization, and replacement, with defense claiming a rising share of the federal budget and the gross national product. Or a famine will replace the current feast, and the military establishment will inherit a vast array of new vehicles, ships, aircraft, and missiles that it cannot afford to operate and maintain.

Rules of the Game

Neither eventuality is to be desired. Although the outside world may not be quite as dangerous a place in which to venture as the administration has suggested, neither is it a place in which to venture unarmed. What the country needs after the enormous surge of the last four years is a defense capability that evolves gradually and steadily in response to a realistic estimate of what the Soviet Union can and will do, and what modern technology reliably can provide. To meet that need, a number of steps are essential.

First, the secretary of defense, instead of becoming Mr. Outside--the representative and advocate of the department--must once again use his great legal powers to restore discipline to the planning-programming-budgeting system and make the choices that the services and the JCS have repeatedly demonstrated they are unable or unwilling to make.

Second, the secretary must lay out and stick to a modernization strategy that avoids the pell-mell acquisition of weapons (which only leads to systems that do not work properly and future block obsolescence) and spreads out the replacement process over a period of 20 years.

Third, the degree of combat effectiveness (usually referred to as readiness and sustainability) that should be maintained by existing forces, including reserve forces, must be explicitly determined rather than left to service tradition and the avaiability of funds after investment wishes have been satisfied.

Fourth, the type and amount of intercontinental mobility must be related to the size and composition of the armed forces and their ability realistically to use it. There is no sense in maintaining costly active-duty units that cannot be deployed to threatened theaters in a timely enough fashion to deter or halt an opposing threat.

Finally, the secretary would do well to close his ears to the siren songs of those who advocate such nostrums as a maritime strategy, horizontal escalation, and war-winning nuclear abstractions. The serious business of his office lies in determining the size and composition of the strategic nuclear forces needed to prevent Soviet leaders from having any realistic expectation of gaining an exploitable military advantage, and the general purpose forces appropriate to the initial defense of a small number of vital theaters in conjunction with allies.

It may prove clever tactically to present Congress with undisciplined budgets and let the members attempt to do the secretary's job, secure in the knowledge that they are not institutionally equipped to make hard and disciplined choices. It is by no means certain, however, that the responsible congressional committees will be able much longer to reconcile their desire for greater fiscal discipline with their propensity to chip away at the edges of the defense budget with a thousand minor cuts. Doomsayers are more often wrong than right. But the probability is on the increase that, starting with the FY 1986 defense budget, the long knives will be unsheathed and major surgery performed. Without cooperation from the defense department, damaging cuts could be made. With cooperation, cuts along with a balanced and healthy defense establishment, well able to fulfill its responsibilities, are still feasible.

Conclusion

Even if real growth in defense budget authority is limited to 3 percent during each of the next three fiscal years, even if no major weapon system is cancelled--with the exception of MX and a few other superfluous programs--it will still be possible to modernize existing forces, but at a slower and more prudent pace. What is more, as much as $67 billion can be saved and applied to the reduction of the federal deficit. Should Congress eventually become more willing to consider defense not as a latter-day WPA, but as the producer of a major public good that deserves at least as careful scrutiny and control as Social Security and Medicaid, perhaps even more can be done. Perhaps stretchouts can then be combined with the cancellation of some of the Pentagon's more baroque fantasies; perhaps duplication and excessive pace can be traded for the capabilities that are most likely to be needed in the years ahead.

Dante may have had something resembling the Pentagon's budget in mind when he wrote: "Abandon all hope, ye who enter here." And the administration may yet find that Congress will once again heed the great poet's advice. There is still a chance, though, that the Senate and the House will finally turn for counsel to another source. It was

Voltaire, who having noted that the English government ordered Admiral Byng to be shot for his failure to effect the relief of Minorca in 1756, wrote with admiration: "They think it a good idea in this country to shoot an admiral from time to time in order to encourage the others." Admirals and generals themselves no longer are fair game for such retribution. But there is very little reason why some of their ships, missiles, aircraft, and other appurtenances should not be. As the Marquise du Deffand remarked about the legend that St. Denis walked ten kilometers, carrying his head in his hand, "the distance doesn't matter; it is only the first step that is difficult." It is still not too late to try the first step.

Table 1. Projected Joint Chiefs of Staff Minimum-Risk Forces, Fiscal Year 1991

Forces	Active duty	Reserve
Army divisions	25	8
Aircraft carrier battle groups	22	---
Marine amphibious forces	4	1
Air Force tactical fighter wings	38	19
Intercontinental lift aircraft	632	---
Intratheater lift aircraft	458	302
Fleet ballistic missile submarines	44	---
Strategic bombers	483	---
Intercontinental ballistic missiles	1,254	---

Source: Armed Forces Journal, August 8, 1982, p. 38.

Table 2. Performance of the Inherited Force, Fiscal Year 1985

Day-to-day alert

	Warheads			Targets and Alert Weapons Assignments						
	Inventory	Surviving	Alert	Strategic Hard	Strategic Soft	Peripheral Attack[b]	General Purpose Forces	Energy and Logistics	Urban/ Industrial	Total
Targets				1,598[a]	752	640	404	500	1,380	5,274
Forces										
550 Minuteman III	1,650	330	297	297						297
450 Minuteman II	450	90	81	81						81
304 Poseidon C-3	3,040	1,672	1,505		107	18			1,380	1,505
192 Poseidon C-4	1,344	806	725			622		103		725
144 Trident C-4	1,008	605	545				404	141		545
145 B-52G	1,160	348	348		348					348
96 B-52H	768	230	230		230					230
56 FB-111A	224	67	67		67					67
Total	9,644	4,148	3,798	378	752	640	404	244	1,380	3,798
Damaging expectancy				215	498	512	323	195	1,104	2,847
Percent				13	66	80	80	39	80	54

Source: author's estimates.

a. Includes launch control centers and nuclear storage sites.

b. Soviet medium-range forces targeted against U.S. allies.

Table 3. Performance of the Modernized Force (with SALT), Fiscal Year 1992

Day-to-day alert

	Warheads			Targets and Alert Weapons Assignments						
				Strategic			General Purpose	Energy and	Urban/	
	Inventory	Surviving	Alert	Hard	Soft	Peripheral Attack[b]	Forces	Logistics	Industrial	Total
Targets				992[a]	752	640	404	500	1,380	4,668
Forces										
550 Minuteman III	1,650	83	75	75						75
450 Minuteman II	450	23	21	21						21
304 Poseidon C-3	3,040	1,672	1,505		125				1,380	1,505
192 Poseidon C-4	1,344	739	665				404	261		665
144 Trident C-4	1,008	605	545			541		4		545
144 Trident D-5	1,008	605	545	545						545
120 B-52G/ALCM	2,400	720	720	351	369					720
25 B-52G	200	60	60		60					60
96 B-52H	768	230	230		131	99				230
56 FB-111A	224	67	67		67					67
Total	12,092	4,804	4,433	992	752	640	404	265	1,380	4,433
Damage expectancy				645	560	496	323	212	1,104	3,340
Percent				65	75	78	80	42	80	72

Source: author's estimates.

a. Does not include 600 Soviet ICBMs assumed to be mobile and not targetable.

b. Soviet medium-range forces targeted against U.S. allies.

Table 4. Performance of the Modernized Force (without SALT), Fiscal Year 1992

	Warheads			Targets and Alert Weapons Assignments						
				Strategic			General Purpose Forces	Energy and Logistics	Urban/ Industrial	Total
	Inventory	Surviving	Alert	Hard	Soft	Peripheral Attack[b]				
Day-to-day alert										
Targets				992[a]	752	640	404	500	1,380	4,668
Forces										
550 Minuteman III	1,650	83	75	75						75
450 Minuteman II	450	23	21	21						21
304 Poseidon C-3	3,040	1,672	1,505		125				1,380	1,505
192 Poseidon C-4	1,344	739	665		627		38			665
144 Trident C-4	1,008	605	545			6	366	173		545
144 Trident D-5	1,008	605	545	218				327		545
241 B-52/ALCM	4,820	1,446	1,446	896		550				1,446
10 Cruise missile carriers	280	84	84			84				84
Total	13,600	5,257	4,886	1,210	752	640	404	500	1,380	4,886
Damage expectancy				783	602	512	323	400	1,104	3,724
Percent				79	80	80	80	80	80	80
Generated alert										
550 Minuteman III	1,650	83	75	75						75
450 Minuteman II	450	23	21	21						21
304 Poseidon C-3	3,040	2,432	2,189						2,189	2,189
192 Poseidon C-4	1,344	1,075	968		64		404	500		968
144 Trident C-4	1,008	806	726		688				38	726
144 Trident D-5	1,008	806	726	726						726
241 B-52/ALCM	4,820	3,856	3,856	2,048	752	1,056				3,856
10 Cruise missile carriers	280	224	224			224				224
Total	13,600	9,305	8,785	2,870	1,504	1,280	404	500	2,227	8,785
Damage expectancy				996	722	614	323	400	1,239	4,264
Percent				97	96	96	80	80	90	91

Source: author's estimates.

a. Does not include 600 Soviet ICBMs assumed to be mobile and not targetable.
b. Soviet medium-range forces targeted against U.S. allies.

Table 5. Weapons Required to Cover SICBM Operating Area

Speed (miles per hour)	30 mph			30 mph			30 mph			30 mph		
Warning time (minutes)	28 min			20 min			14 min			7 min		
Operating area (square miles)	30,788 m^2			15,708 m^2			7,700 m^2			1,925 m^2		
Hardness of transporter (psi)	20	40	50	20	40	50	20	40	50	20	40	50
Weapons required to blanket operating area:												
MT												
.4	5,110	10,220	12,733	2,607	5,214	6,517	1,278	2,556	3,194	320	639	799
.7	3,518	7,037	3,796	1,795	3,590	4,488	880	1,760	2,200	220	440	550
1.0	2,774	5,548	6,934	1,415	2,831	3,533	694	1,388	1,734	173	347	434
5.0	949	1,897	2,372	484	968	1,210	237	474	593	59	119	148

Source: author's estimates.

Table 6. Low-risk Tactical Nuclear Capabilities (Europe)

Generated Alert

	Alert Weapons	Targets in Eastern Europe and Weapons Assignments: Main Airfields	Logistic Chokepoints	Command and Storage Bunkers	Troop Targets[a]	Total
Targets		72	191	162	1,088/229	1,513
Forces						
480 Submarine-based Tomahawk (T-LAM-N)	384	31	191	162		384
116 Ground-launched cruise missiles (GLCM)	104	41			63	104
108 Pershing II missiles	97	72			25	97
72 Pershing I missiles (German)	65				65	65
36 Lance missiles	32				32	32
61 Lance missiles (Allied)	55				55	55
42 Pluton missiles (French)	38				38	38
Total	775	114	191	162	278	775
Damage expectancy		69	153	130	222	574
Percent		96	80	80	97	88

Source: author's estimates.

a. As many at 1,088 battalion-sized targets are assumed to exist along a front of 750 kilometers. A blanketing attack, covering the entire front with blast effects of 10 psi, would require 229 airburst, 50-kiloton weapons.

Table 7. Projected Goals for Conventional Forces, Fiscal Years 1985, 1989, and 1991

	Secretary of defense				Joint Chiefs of Staff	
	1985		1989		1991	
Forces	Active	Reserve	Active	Reserve	Active	Reserve
Army divisions	17	9	18	10	25	8
Marine amphibious forces		1	3	1	4	1
Aircraft carrier battle groups	13	---	15	---	22	---
Air Force tactical fighter wings	26	14	28	15	38	19
Intercontinental lift aircraft	339	---	347	---	632	---
Intratheater lift aircraft	216	302	218	302	458	302

Sources: Defense Department Annual Report, FY 1985, p. 287; Armed Forces Journal, August 8, 1982, p. 38; and author's estimates.

Table 8. Savings in Nuclear Programs from Reductions in Duplication and Pace, Fiscal Years 1986-89

Billions of dollars

Budget Authority	1986	1987	1988	1989	Total
MX missile	3.8	3.1	2.6	0.9	10.4
Small ICBM (SICBM)	0.5	1.8	1.9	2.4	6.6
B-1B bomber	6.0	0.1	---	---	6.1
OTH-B	0.4	0.3	0.1	---	0.8
Stealth bomber (ATB)	0.5	2.5	2.5	2.5	8.0[a]
Strategic defense initiative	2.4	3.6	4.9	6.0	16.9[b]
	13.6	11.4	12.0	11.8	48.8
Outlays	3.5	10.4	12.9	13.8	40.6

Source: Congressional Budget office, Selected Weapons Costs, March 22, 1984; The Boston Globe, December ____, 1984; and author's estimates.

a. The ATB is held in engineering throughout this period; no production is authorized.

b. SDI is frozen at $1.4 billion a year.

Table 9. Decreases and Increases in Non-nuclear Programs, Fiscal Years 1986-89

Billions of dollars
Decreases in budget authority

Program	Action	1986	1987	1988	1989	Total
Army						
M-1 tank	reduce from 720 to 600	0.3	0.3	0.3	0.3	1.2
M-2 fighting vehicle	reduce from 900 to 600	0.4	0.4	0.4	0.4	1.6
Binary chemical munitions	cancel	0.4	0.7	1.3	3.0	5.4
Division air defense gun	cancel	0.7	0.4	0.1	0.1	1.3
Patriot air defense missile	cancel procurement	1.4	1.2	0.9	0.6	4.1
Decreases in Army programs		3.2	3.0	3.0	4.4	13.6
Navy						
AV-8B fighter	cut production in half	0.5	0.4	0.5	0.5	1.9
P-3C patrol aircraft	reduce from 9 to 6 a year	0.2	0.2	0.2	0.2	0.8
E-2 early warning	reduce from 6 to 3 a year	0.2	0.2	0.2	0.2	0.8
JVX vertical lift	cancel procurement	—	—	0.1	1.3	1.4
EA-6B aircraft	reduce from 6 to 3 a year	0.2	0.2	0.1	0.2	0.7
F-14A/D fighter	cut production in half	0.6	0.5	0.6	0.8	2.5
F/A-18 aircraft	reduce to 60 a year	1.2	1.3	1.4	1.2	5.1
Battleship reactivation	cancel	—	0.5	—	—	0.5
SSN-688 attack submarine	reduce from 4 to 2 a year	1.2	1.2	1.3	1.4	5.1
DDG-51 Aegis destroyer	reduce from 5 to 3 a year	—	—	1.8	1.9	3.7
CG-47 Aegis cruiser	cancel	3.3	3.5	2.6	2.8	12.2
LSD-41 Landing ship dock	cancel	0.5	0.5	—	—	1.0
LHD-1 Amphibious assault ship	cancel	1.4	0.1	1.5	1.6	4.6
Decreases in Navy programs		9.3	8.6	10.3	12.1	40.3
Air Force						
F-15 fighter	hold production at 48 a year	0.3	0.5	1.4	1.0	3.2
F-16 fighter	reduce production to 120 a year	1.9	1.7	1.7	1.8	7.1
LANTIRN navigation system	cancel	0.5	0.8	0.7	0.6	2.6
C-5B airlift aircraft	cancel	2.6	2.3	—	—	4.9
C-17 airlift aircraft	cancel	0.4	0.6	2.6	2.7	6.3
Decreases in Air Force programs		5.7	5.9	6.4	6.1	24.1
Total reduction in budget authority		18.2	17.5	19.7	22.6	78.0
Increases in budget authority						
Army National Guard & Reserve		2.7	2.8	3.0	3.3	11.8
Air Force National Guard & Reserve		2.5	2.7	3.0	3.1	11.3
Navy sealift (25 ships)		1.2	1.2	1.3	1.3	5.0
Budget authority		6.4	6.7	7.3	7.7	28.1
Outlay Effects from:						
Decreases in budget authority		2.6	9.0	14.0	17.0	42.6
Increases in budget authority		0.9	3.2	5.1	6.2	15.4
Outlays		1.7	5.8	8.9	10.8	27.2

Sources: Congressional Budget Office, Selected Weapons Costs, March 22, 1984; and author's estimates

Table 10. The Effects of Rescissions, Fiscal Years 1983-89

Billions of dollars

Decreases in Budget Authority

Program	Action	1983	1984	1985	1986	1987	1988	1989	Total
MX missile	cancel	1.2	2.1	2.5					5.8
B-1B bomber	cancel	2.0	2.4	4.1					8.5
Small ICBM (SICBM)	cancel	---	0.2	0.2					0.4
Strategic defense initiative	cut in half	---	0.4	0.5					0.9
Over-the-horizon radar (OTH-B)	cancel	---	---	0.3					0.3
Nuclear systems		3.2	5.1	7.6					15.9
M-1 tank	reduce from 720 to 600	0.3	0.3	0.3					0.9
Division air defense gun (DIVAD)	cancel	0.5	0.6	0.6					1.7
Patriot air defense missile	cancel	0.8	1.0	1.3					3.1
AV-8B fighter	cancel	0.2	0.2	1.0					1.4
F-14 fighter	cut production in half	0.4	0.4	0.6					1.4
Aircraft carrier (CVN)	cancel 2	5.0	---	---					5.0
Landing ship dock (LSD-41)	cancel 3	0.4	0.4	0.5					1.3
Amphibious assault ship (LHD-1)	cancel 1	0.1	1.4	---					1.5
F-15 fighter	cut production in half	0.7	0.7	1.0					2.4
C-5B airlift aircraft	cancel	0.4	0.7	1.0					2.1
C-17 airlift aircraft	cancel	---	---	0.1					0.1
Non-nuclear systems		8.8	5.7	6.4					20.9
Total decrease in budget authority		12.0	10.8	14.0					36.8
Reductions in outlays					9.2	5.7	2.6	1.3	18.8

Sources: Defense Department Annual Report, FY 1984, FY 1985; Congressional Budget Office, Selected Weapons Costs, March 22, 1984; and author's estimates.

Table 11. Savings from a Freeze on the Acquisition of Modern Munitions, Fiscal Years 1986-89

Billions of dollars

Service	1986	1987	1988	1989	Total
Army	0.5	---	---	---	0.5
Navy/USMC	0.6	0.9	1.5	1.0	4.0
Air Force	0.8	1.2	1.5	1.6	5.1
Savings in budget authority	1.9	2.1	3.0	2.6	9.6
Savings in outlays	0.4	1.3	2.1	2.7	6.5

Sources: Congressional Budget Office, Selected Weapons Costs, March 22, 1984; and author's estimates.

Table 12. Potential Decreases and Increases in Nuclear and Non-nuclear Programs, Fiscal Years 1986-89

Billions of dollars

	1986	1987	1988	1989	Total
Budget authority					
Nuclear programs	13.6	11.4	12.0	11.8	48.8
Non-nuclear programs	18.2	17.5	19.7	22.6	78.0
Modern munitions	1.9	2.1	3.0	2.6	9.6
Rescissions	---	---	---	---	---
Decreases in budget authority	33.7	31.0	34.7	37.0	136.4
Increases in budget authority	6.4	6.7	7.3	7.7	28.1
Net decreases	27.3	24.3	27.4	29.3	108.3
Outlays					
Nuclear programs	3.5	10.4	12.9	13.8	40.6
Non-nuclear programs	2.6	9.0	14.0	17.0	42.6
Modern munitions	0.4	1.3	2.1	2.7	6.5
Rescissions	9.2	5.7	2.6	1.3	18.8
Decreases in outlays	15.7	26.4	31.6	34.8	108.5
Increases in outlays	0.9	3.2	5.1	6.2	15.4
Net decreases	14.8	23.2	26.5	28.6	93.1

Sources. Tables 8, 9, 10, 11; and author's estimates.

Table 13. Congressional Action on the Defense Budget, Fiscal Years 1980-85

Billions of dollars of obligational authority

Action	1980	1981	1982	1983	1984	1985
Presidential request	135.5	158.7	226.5[a]	258.0	274.1	305.7
Congressional appropriation	142.2	176.1	211.4	238.7	259.1	285.7
Difference	+6.7	+17.4	-15.1	-19.3	-15.0	-20.0
Percent of request	1.049	1.11	.933	.925	.945	.935

Sources: *Defense Department Annual Report*, fiscal years 1980-85; Alice Maroni; and author's estimates.

a. The original submission by President Carter amounted to $196.4 billion; President Reagan subsequently submitted supplemental requests to increase both the 1981 and 1982 requests.

Table 14. Growth in Investment and Operating Accounts, Fiscal Years 1980-85

Billions of dollars of budget authority unless otherwise noted

Accounts	1980	1981	1982	1983	1984	1985
Investment						
Procurement	35.3	54.8	64.5	80.4	86.0	97.1
Research, development, test, and evaluation	13.6	18.9	20.1	22.8	26.9	31.2
Military construction	2.3	3.8	4.9	4.5	4.5	5.5
Total	51.2	77.5	89.5	107.7	117.4	133.8
Constant FY 1985 dollars	69.0	93.9	101.4	117.1	122.7	133.8
Operating						
Military personnel	31.0	36.7	42.9	45.7	48.6	52.0
Operation and maintenance	46.4	55.2	62.5	66.5	70.9	77.5
Family housing	1.5	2.0	2.2	2.7	2.7	2.9
Management funds	1.3	0.5	2.5	1.1	2.5	1.6
Total	80.2	94.4	110.1	116.0	124.7	134.0
Constant FY 1985 dollars	108.1	114.4	124.7	126.1	130.3	134.0
Real growth (percent)						
Investment						
year-to-year	---	36.1	8.0	15.5	4.8	9.0
cumulative	---	36.1	47.0	69.7	77.8	93.9
Operating						
year-to-year	---	5.8	9.0	1.1	3.3	2.8
cumulative	---	5.8	15.4	16.7	20.5	24.0

Source: Defense Department Annual Report, fiscal years 1981-85.

Table 15. The Administration's Budget and Three Alternatives, Fiscal Years 1986-88

Billions of dollars of budget authority unless otherwise specified

Budget authority	Base year 1985	Fiscal years 1986	1987	1988
Administration plan	285.2	313.7	354.0	401.6
Three percent solution	285.2	308.5	333.0	358.3
One percent solution	285.2	302.5	320.1	337.8
Freeze	285.2	299.5	313.8	328.0
Rate of inflation				
Year-to-year	---	1.05	1.048	1.045
Cumulative	---	1.05	1.1004	1.1499

Source: New York Times, December 19, 1984; and author's estimates.

Table 16. Appropriation Accounts for Alternative Budgets, Fiscal Years 1986-88

Billions of dollars

Accounts	1985	Three percent solution			One percent solution			Freeze		
		1986	1987	1988	1986	1987	1988	1986	1987	1988
Military personnel	69.4	72.9	76.4	79.8	72.9	76.4	79.8	72.9	76.4	79.8
Operation and maintenance	77.5	83.2	89.0	95.2	82.0	86.5	91.1	81.4	85.3	89.1
Procurement	97.1	109.1	122.1	135.8	104.3	111.8	119.5	101.9	106.7	111.7
Research, development, test, and evaluation	31.2	32.8	34.4	35.9	32.8	34.4	35.9	32.8	34.4	35.9
Military construction	5.5	5.8	6.1	6.4	5.8	6.1	6.4	5.8	6.1	6.4
Family housing and homeowners' assistance	2.9	3.0	3.1	3.2	3.0	3.1	3.2	3.0	3.1	3.2
Revolving and management funds	1.6	1.7	1.9	2.0	1.7	1.8	1.9	1.7	1.8	1.9
Budget authority total	285.2	308.5	333.0	358.3	302.5	320.1	337.8	299.5	313.8	328.0
Outlays										
Alternatives	252.1	274.2	299.2	325.6	272.5	293.8	314.7	271.8	291.1	309.2
Administration baseline[a]		286.2	321.5	358.8	286.2	321.5	358.8	286.2	321.5	358.8
Difference		12.0	22.3	33.2	13.7	27.7	44.1	14.4	30.4	49.6
Aggregate difference			67.5			85.5			94.4	

Sources: Table 15; New York Times, December 19, 1984; and author's estimates.

a. The administration baseline numbers are those from which the defense department measured its savings of $8.7 billion in 1986, $9.0 billion in 1987, and $10.0 billion in 1988, for a total of $27.7 billion.

Table 17. Examples of Reductions in Procurement Required by Alternative Budgets, Fiscal Years 1986-88

Outlays in billions of dollars

	Three percent solution			One percent solution			Freeze		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
Total Reduction Required	2.4	8.2	11.4	3.1	11.4	18.7	3.4	13.0	22.4
Candidate programs									
Nuclear									
MX	0.7	2.5	3.0	0.7	2.5	3.0	0.7	2.5	3.0
OTH-B	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2
B-1							0.6	2.7	2.2
Stealth		0.3	1.4		0.3	1.4		0.3	1.4
Non-nuclear									
DIVAD	0.6	0.6	0.5	0.6	0.6	0.5	0.6	0.6	0.5
Patriot				0.2	0.8	1.2	0.1	0.8	1.2
Binary chemicals					0.3	0.7		0.3	0.7
Modern munitions				0.4	1.3	2.1	0.4	1.3	2.1
Navy ships[a]	0.2	0.8	2.1	0.2	0.8	2.1	0.2	0.8	2.1
Rescission of prior-year ships[b]							1.4	1.4	1.4
Navy aircraft[a]	0.4	1.5	2.6	0.4	1.5	2.6	0.4	1.5	2.6
Air Force aircraft[a]	0.6	3.1	5.2	0.6	3.1	5.2	0.6	3.1	5.2
Total	2.6	8.9	15.0	3.1	11.3	19.0	5.1	15.4	22.6

Sources: Tables 8, 9, 10, 11, 16; and author's estimates.

a. For detail, see table 9.
b. For detail, see table 10.

Chairman **Domenici**. Unless there is some objection, we will proceed with the three panelists before we begin with questions. I do want to accommodate everyone if possible. This is a tough morning for the Senators so if anyone wants to interrupt and ask questions, feel free to do that.

Dr. Luttwak, you are next. Did you have a prepared statement?

Dr. **Luttwak**. No. I would just like to present it verbally.

Chairman **Domenici**. Please proceed.

STATEMENT OF DR. EDWARD N. LUTTWAK, GEORGETOWN UNIVERSITY CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Dr. **Luttwak**. I am publishing a book in a few days which is supposedly fiercely critical of the entire Defense Department and yet, I personally do not feel qualified to second guess a very large institution with a great deal of expertise on any specific detail of the defense policy.

UNDERLYING PROBLEM IS STRUCTURAL

I believe that the marginal approach keeps us on a treadmill of makeshifts and last-minute improvisations, in a process which has been going on now for decades. Whereas in fact, the common underlying problem is structural and capable of a structural solution.

Chairman **Domenici**. So are you saying, then, that——

Dr. **Luttwak**. I am saying I disagree with the approach that we have just had presented.

Let me get on to my proposal——

Chairman **Domenici**. But let me just see if I can understand. While you are critical, and your book is critical, you are saying if we do not have major reform, then you do not see any beneficial effect to just incremental nibbling around the edges.

Dr. **Luttwak**. Yes; that is what I believe.

Chairman **Domenici**. And you would opt, if you cannot make the structural changes, to go with the experts in DOD. Is that what you are saying?

Dr. **Luttwak**. Yes; because there are no real economies in just fiddling at the margins.

Chairman **Domenici**. Thank you. Go ahead.

Dr. **Luttwak**. The nature of our defense-structure problem is not abstract, but very specific.

EXCHANGE RATE POOR

The exchange rate between the money we put into the Defense Department and the military power we get out is very poor.

I make my living as a military consultant. I work overseas a great deal with foreign armed forces. And I believe that our international competitiveness, as it were, in changing money into military power, is about as good in the military area as it is in the textile industry. We are simply not good at it. And that is not because of any cultural fault, but rather because of the way we are organized. When I say organized, I mean the Executive, the Congress, the entire system.

Congress, I am sorry to say, is part of the problem. This committee; for example, is uniquely qualified in assessing the Federal budget and the role of defense within it. But this committee does not have the procedure, the mechanism, to examine the military-need side of the equation. And the problem with military needs, that is, the threat is that its elements are by nature remote and abstract, so that the solid commonsense that guides us so well in other matters, has historically shown a disturbing tendency to fail in coping with enemy threats.

I believe it was in 1941 that the Congress passed the draft legislation by just one vote a few months before Pearl Harbor.

Similarily, the authorization process in Congress suffers from a defect which is fundamental, but the responsibility does not lie with the Armed Services Committees of the two Houses; it lies with the central mechanism of our defense policymaking.

ESTABLISH DEFENSE GOALS

The proper way of conducting authorizations hearings should be first of all, to establish what are our defense goals. Of course, some goals are very controversial as counterforce and the MX, now are. On controversial goals we cannot expect any reasoned judgment at all. But such goals account for maybe 4 or 5 percent of the budget. On 95 percent of the defense budget, we have wonderful consensus as far as the goals are concerned.

There is much talk about the breakdown of consensus, but we agree on 95 percent of the defense goals—the defense of Western Europe and Northeast Asia, sea control across the two oceans and nuclear deterrence.

Having determined the goals, the next step should be to identify the specific military forces that are relevant to meet those goals. So we would start listing Army and Marine divisions, different kinds of tactical air squadrons, different classes of nuclear weapons, specific ships and submarines and so on. We would now have a long list of relevant forces. And then would come the final step—and that is where political judgment must intervene—first, by the President and his Secretary of Defense, and then, of course, by Congress—to decide to what extent we should buy the forces needed for each goal, and to what extent we would accept risk.

What happens now, by contrast, is that we have very powerful independent services and a very weak Joint Chief system, so that the money basically, handed out to the services—each of which spends it as it sees fit.

NATIONAL MILITARY STAFF NEEDED

The services do not provide us with specific forces matched to national military goals. Instead they offer a mixed bag of overlapping forces which they happen to maintain for all kinds of reasons—traditional reasons mostly. Thus the Marines are dedicated to their amphibian rituals; the Navy is committed to its own goal of 600 ships; while the Air Force, as a pilot-dominated service does not like anything that does not have a cockpit in it, so they shortchange missiles and pilotless systems. Everybody does his own thing, so that we have a mixed menu of forces unguided by strategy. Some of the forces we keep coincide with the forces that we would want anyway under an overall strategy defined by a systematic procedure. But others are merely perpetuated from year to year, and decade to decade with no valid rationale. The result is a massive lack of correlation between the forces we actually have and the forces that we would keep by any rational national-level procedure.

What we need is a single, national military staff by whatever name, manned by military officers trained, proven, and promoted within the single services, who at some point in their careers leave their service to join the National Military Staff. Their promotion would thus no longer depend on how well they serve a single service within councils and committees, as is now the case within the JCS.

PERPETUATION A PROBLEM

Mistakes will be made under any system, but at least we would not have the mindless perpetuation of the forces that we happen to have inherited from the past, decade after decade. Our Navy's priorities for example still reflect the exigencies of the Pacific war fought against the Japanese empire, an insular empire completely dependent on sea communication. And we still maintain that type of navy against the Soviet Union which, inconveniently enough, is virtually landlocked and which can carry out all its major strategic moves without using the sea at all, and which does not rely on maritime commerce except in a minor way even in peacetime.

The second consequence of perpetuation in lieu of strategy, is that when new things come along, new technologies, new ways of doing things, they are not easily absorbed because they are added to the structure while the old continues. Since there is no rational review of the old forces and missions, new missions and new technologies must be squeezed into a larger total. The pace of innovation is therefore slow. Our potential advantage in technology, which is supposed to balance our weakness in numbers, is only manifest in the prototypes. When we consider weapons in mass deployment on the other hand, the gap between our technological level and the Soviet is quite small. Theoretically, the reason is the very slow process of acquisition. The real impediment to innovation, however, is that the new cannot smoothly replace the old because the old is bureaucratically perpetuated.

Now, let me comment on one administrative phenomenon and then address one slightly less obvious aspect of our structural problem. The administrative observation is that our present military structure, as many have noted, offers a very low ratio of combat forces to overhead support. The reason for that, I believe, is that the present system perpetuates a 1945–48 consensus decision, that we should not in fact maintain a combat structure as such, but rather a mobilization structure.

That is why we have so many bases, arsenals and depots, and also so many officers. It was then believed, I think very sensibly, that we should prepare for a war very much like the Second World War, when we had more than 12 million people under arms, and therefore, that we should maintain a peacetime structure that could rapidly expand to absorb millions of draftees in all four services.

SHOULD HAVE THE MOBILIZATION WE ARE PAYING FOR

I think that there is still a very good case for a mobilization base, for keeping 10 times as much floor space and 10 times as many officers in the middle and upper ranks as we need on a current basis. But as things now stand, we are paying for a huge overhead, whose purpose is to enable us to mobilize, where as we could not mobilize at all, because the weapons we are now acquiring are not, in fact, mass producible.

In 1945–48, when it was decided to keep a very high officer ratio in the middle and upper ranks, and to retain as many bases and depots open as possible, the Army was using Sherman tanks that industry could produce by the tens of thousands; the Air force had Mustang fighters, which again were produced by the thousands, even ships were mass producible. Today, we retain the mobilization overhead—a very important cause of today's low rate of exchange between money and military power—but the weapons that are now being acquired are simply not mass producible. So this is a mobilization capacity that cannot, in fact, translate into combat capability. Of the F–15 fighter, we buy 40–42, a year. A maximum wartime production rate for an F–15 would be perhaps 160 in the first 2 years. Hence, the Air Force's expansion capacity as far as the F–15 is concerned is nugatory. With the F–16 that number would be doubled no more. We have thousands of pilot-rated Air Force officers whose real purpose in life is to wait around for the day when we would have to expand to fight the great conventional war—which may be the only way to prevent the nuclear war—but that depends on having aircraft that we can mass produce. Since we do not have any combat aircraft that we can mass produce, nor tanks we can mass produce, nor, of course, ships we have no real mobilization capacity.

What is the point of the Navy's mobilization capacity if, given the way they design and make their ships, it takes 5 or 6 years before the first postwarship arrives?

I happen to believe in the strategic wisdom of an elastic mobilization capacity. I will go further and say that this administration has identified the problem in a very important way but it has failed to act on its own policy. We are paying for a mobilization capacity but we could never obtain its benefits. The specific recommendations of course, that alongside the latest, best, and most complete weapons systems, each service should also be asked either to give the mobilization capacity—all those extra officers—or else to keep within its force structure a set of compromise weapons systems which are in fact mass producible. Without that, we are just paying for the overhead, and could never realize its benefit.

REASON FOR NOT HAVING STRATEGIC DECISION

Let me now end by addressing the less obvious problem. In our present system, we have no locus of strategic decision because the Pentagon is dominated by the Washington headquarters of the Army, Navy, Marine Corps, and Air Force. As you know, the JCS, which is supposed to impose national priorities over the services, consists merely of a series of weak committees. We know that the JCS is full of patriotic, dedicated and qualified officers but we also know that any lapse into national objectivity, as it were, any failure to ruthlessly uphold services preferences and services interests is now punished.

The primary and obvious effect is of course, that we are denied the opportunity to obtain the military forces we actually need on a national basis.

The less obvious phenomenon however is manifest within each service as a separate entity. Within each service, the Washington element—the Vu-Graph artists, the smart office politicians, the people who know how to compromise and manipulate—dominate their fellows officers in the field. The whole balance of promotion, is governed by the Washington end of the business.

Now, there are two problems with this pattern. The more obvious problem is that the skills that are so effective in the bureaucratic warfare of Washington happen not to be appropriate to the battlefield. Battle results are not to be achieved by clever compromise and smart briefings. Quite different skills are needed for combat.

The second problem is that programs dominate military needs. Of course, each program originally reflected some need. Officers in the field say: "Look, our tanks are 20 years old. They are disgraceful. They are the worst tanks in the whole NATO lineup." But then, once a new tank project is launched and becomes a program it begins to embody the interests, the commitment, and the reputations of the program managers. Then that program will continue to develop along its own track, even though the fellows in the field might say: "Listen, this thing is taking so long, and it is so expensive, and we are going to get so few of them so late that we want to change course. Why don't we just product-improve the earlier tank?" But by then the program not the need will dominate.

Now, as it happens, the tank example does not, in fact, apply. I think the M1 is a good program which has solid support among field officers. But there are other examples, among combat aircraft; for example, proceeding right now, where we programmatically continue to buy an aircraft that was indeed desired at one point in time but which the people in Europe no longer want. But once the Washington headquarters have invested their own commitment the program simply proceeds, wanted or not.

So we have here a syndrome of bureaucratization and remoteness from field requirements, which is yet another aspect of the overall structural dysfunction whose outcome is the very low rate of exchange between money in, and military power out. And military power of course, operates in the arena of international competitiveness.

NATIONAL MILITARY STAFF WILL DO BETTER JOB

I believe that if we put in place a national military staff, it would do a better job in terms of missions and forces, but it would also do something else: It would remove the power from those

Washington headquarters and thus stop the deformation of priorities within each service.

I believe that a national military staff would perform better programmatically than the JCS, perhaps 20 or 40 percent better—I do not believe it could be 100 percent better. But a national military staff would also yield many other advantages because it would change the balance of power within the services, and we would start to return to a sound military approach in many matters.

Thank you very much, Mr. Chairman.

Chairman DOMENICI. Thank you, Dr. Luttwak.

[Submitted for the Record, an extract from Edward N. Luttwak's "The Pentagon and the Art of War," New York 1985 (Simon and Schusnar).] [1]

Chairman DOMENICI. Mr. Stubbing?

STATEMENT OF RICHARD STUBBING, DUKE UNIVERSITY

Mr. STUBBING. Thank you, Mr. Chairman.

I find myself in hearty agreement with Dr. Luttwak on a lot of his analysis and pretty much substantive disagreement on his conclusions.

I thought I would ask this morning four questions that I think may help put this in perspective—and I will speak as a budgeteer, having spent 20 years in OMB on the defense budget.

WHERE HAS THE MONEY GONE

The first question I would like to address is: Where has the money gone? What I am talking about is the earlier reference to the $1.2 trillion we have appropriated in the last 5 years. And of that, the piece I would like to concentrate on is the $300 billion of real growth the last 5 years.

The results have been kind of meager, and it goes with Dr. Luttwak's argument that we have all these blockages that get in the way of trying to really improve our capability.

Of this $300 billion-plus we have had in real growth in 5 years, $190 billion force goes to investment programs—both strategic and general-purpose force modernization. You have already heard much about the controversies surrounding the strategic programs.

There is less discussion about the general-purpose forces, and I think we ought to just at least touch briefly on those.

Army weapons production rates, are somewhat higher. They were planned to go up, as they simultaneously modernized their forces. But even now, at our peak rates of production on things like tanks and armored vehicles, we are far below the Soviets and what they are producing. And it at least raises some questions about this exchange ratio that Dr. Luttwak mentioned.

Navy combatants, the fighting ships. The Navy has funded an average of 11 combatant ships a year for the last 6 years, starting in 1980. Despite all the rhetoric about building the Navy there has been no increase in the rate of combatant ship production; it is mostly in the much smaller ships that the growth is happening. What is happening is the Navy is now buying larger, more expensive ships, like the Aegis and the attack submarines, instead of less expensive ships like the frigates. But the same number of combatants are being bought each year.

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[1] See p. 331.

And then, the surprise of surprises is the Air Force, in terms of their tactical aircraft production. One of the great areas of noted disparity with the Soviets back in 1980 was that we were producing far less airplanes than the Soviets. The point of fact is that in terms of the F-15 and F-16, which are the two major Air Force tactical modernization programs, that our production in the last 4 years has been 24 percent below the production of the 3 years prior to that. Prices are up; we are paying a lot more for them, but we are getting a lot less.

The overall results from spending $190 billion in added real growth from 1981-85 in the investment categories are merger in terms of the added capability received.

READINESS RESULTS HAVE BEEN MODEST

On the readiness side which, at times, people attack as underfunded they have received about $130 billion of real growth over these 5 years 1981-85 that is not a niggardly amount of money. I would point out that readiness in my term would include military personnel, the O&M, the spares, and the ammo purchases.

The results again, have been modest. A May 1984 DOD report on readiness shows that the activity rates of all the services are approximately the same as they were in 1980—some slightly higher, some slightly lower. Readiness is an abstract term, as I am sure you are well aware, but it gets a lot of discussion, and I would like to point out that either we were in pretty good shape readinesswise in 1980—which I do not believe we were—or it is very hard to put dollars into the defense system, and out the other end comes improvements in the thing called readiness. I think there is truth to the latter.

And the last piece of the readiness is the military pay, and I just quickly would say that we have a strange way of resolving problems. We apply the ship rises with the tide solution. If a problem is created somewhere in the enlisted ranks with several specialties of shortages, everybody has to get a pay raise. And that system is very expensive. I would point out that in 1984, we were spending 50 percent more on pay for the average military person than we were in 1980, so each soldier was getting 50 percent more cash money than he was in 1980.

AVERAGE OFFICER RECEIVES $38,500 IN CASH

There were never any serious shortages of officers who constitute 15 percent of military strength but who receive 25 percent of total pay. And yet, they had their salaries increased, also. And I would point out that is another inefficiency in the system. The average officer today, in 1985, is receiving in cash payments $38,500. That is a fairly healthy number. And that average officer would probably be a captain or a Navy lieutenant with less than 10 years of service.

Senator **Johnston**. That is in cash?

Mr. **Stubbing**. That is his cash receipts, yes, before taxes.

Senator JOHNSTON. That doesn't count the fringe benefits?

Mr. STUBBING. No; that is what I am pointing out. It does not count the retirement and all the good things that are free, commissaries and all that. That is not an underpaid group, I would point out.

Senator BOSCHWITZ. Are you talking about a captain in the Navy or a captain in the Army?

Mr. STUBBING. A captain in the Army, Senator. A captain in the Army or a lieutenant in the Navy; it is an 03, as they categorize it.

Chairman DOMENICI. How much would you add to that, roughly, for the fringes?

Mr. STUBBING. Well, they are putting a pricetag of the retirement alone as 50 percent on the basic pay, so you could add that on top for just the retirement. And then, add another—10 to 20 percent, maybe more, for the other things, free medical and all the things that are in there.

It is a very well-paid occupation.

Senator JOHNSTON. Mr. Chairman, can we get a chart somewhere that will list those actual pays with all the fringes?

Chairman DOMENICI. Of course. If it will help, we will get it.

Senator JOHNSTON. I think it would help.

Chairman DOMENICI. Why don't we get it now and circulate it. If we do not have it in toto, let us circulate what we have to the members.

[The following was subsequently supplied for the record:]

Air Force ★ MONTHLY PAY: Effective 1/1/85

Monthly BAQ

Pay Grade	Without Dependents Full	Without Dependents Partial	With Dependents
O-10	$537.30	$50.70	$660.90
O-9	537.30	50.70	660.90
O-8	537.30	50.70	660.90
O-7	537.30	50.70	660.90
O-6	493.20	39.60	599.40
O-5	465.30	33.00	552.30
O-4	426.60	26.70	504.90
O-3	345.30	22.20	420.90
O-2	278.10	17.70	360.90
O-1	238.50	13.20	323.70
W-4	391.20	25.20	453.90
W-3	330.30	20.70	405.90
W-2	297.00	15.90	379.50
W-1	251.40	13.80	330.90
E-9	315.30	18.60	429.90
E-8	292.20	15.30	400.50
E-7	249.30	12.00	372.60
E-6	221.40	9.90	337.80
E-5	204.90	8.70	300.30
E-4	177.60	8.10	259.50
E-3	172.50	7.80	238.50
E-2	146.40	7.20	238.50
E-1	133.50	6.90	238.50
E-1*	122.70	6.90	213.60

* Less than four months of service

Monthly BAS

Officers (including commissioned officers, warrants and aviation cadets) $106.18 per month

Enlisteds

	E-1 -4 mos.	All others
When rations in kind are not available	$5.29	$5.72
When on leave or granted permission to mess separately	4.68	5.06
When assigned under emergency conditions where no government messing is available	7.00	7.57

GRADE	Under 2	2	3	4	6	8	10	12	14	16	18	20	22	26
COMMISSIONED OFFICERS														
O-10	5069.40	5247.90	5247.90	5247.90	5247.90	5449.20	54[illegible]20	5724.90	5724.90	5724.90	5724.90	5724.90	5724.90	5724.90
O-9	4493.10	4610.70	4708.00	4708.80	4708.80	4828.50	4828.50	5029.50	5029.50	5449.20	5449.20	5724.90	5724.90	5724.90
O-8	4069.50	4191.30	4290.90	4290.90	4290.90	4610.70	4610.70	4828.50	4828.50	5029.50	5247.90	5449.20	5667.20	5667.20
O-7	3381.60	3611.40	3611.40	3611.40	3773.10	3773.10	3992.10	3992.10	4191.30	4610.70	4927.50	4927.50	4927.50	4927.50
O-6	2506.20	2753.70	2934.00	2934.00	2934.00	2934.00	2934.00	2934.00	3033.60	3513.30	3693.00	3773.10	3992.10	4329.60
O-5	2004.60	2354.10	2516.40	2516.40	2516.40	2516.40	2592.90	2732.10	2915.10	3133.20	3313.20	3413.40	3532.50	3532.50
O-4	1689.60	2057.40	2194.80	2194.80	2235.30	2334.30	2493.30	2633.70	2753.70	2874.60	2954.10	2954.10	2954.10	2954.10
O-3	1570.20	1755.30	1876.50	2076.30	2175.60	2254.20	2375.70	2493.30	2554.80	2554.80	2554.80	2554.80	2554.80	2554.80
O-2	1369.20	1495.20	1796.10	1856.70	1895.70	1895.70	1895.70	1895.70	1895.70	1895.70	1895.70	1895.70	1895.70	1895.70
O-1	1188.60	1237.50	1495.20	1495.20	1495.20	1495.20	1495.20	1495.20	1495.20	1495.20	1495.20	1495.20	1495.20	1495.20
COMMISSIONED OFFICERS WITH MORE THAN 4 YEARS ACTIVE DUTY AS ENLISTED OR WARRANT OFFICER														
O-3E	0	0	0	2076.30	2175.60	2254.20	2375.70	2493.30	2592.90	2592.90	2592.90	2592.90	2592.90	2592.90
O-2E	0	0	0	1855.70	1895.70	1955.70	2057.40	2136.00	2194.80	2194.80	2194.80	2194.80	2194.80	2194.80
O-1E	0	0	0	1495.20	1597.20	1656.00	1716.00	1775.70	1856.70	1856.70	1856.70	1856.70	1856.70	1856.70
ENLISTED MEMBERS														
E-9	0	0	0	0	0	0	1860.60	1902.90	1945.80	1990.50	2034.90	2074.50	2183.70	2395.80
E-8	0	0	0	0	0	1560.60	1605.00	1647.00	1690.20	1734.60	1774.80	1818.30	1925.10	2139.90
E-7	1089.60	1176.00	1219.80	1262.40	1305.60	1347.00	1390.20	1433.40	1498.20	1540.80	1584.00	1604.70	1712.40	1925.10
E-6	937.20	1021.80	1064.40	1109.70	1150.80	1192.80	1236.60	1300.20	1341.00	1384.20	1405.20	1405.20	1405.20	1405.20
E-5	822.60	895.50	938.70	979.80	1044.00	1086.30	1129.80	1171.20	1192.80	1192.80	1192.80	1192.80	1192.80	1192.80
E-4	767.40	810.30	857.70	924.60	960.90	960.90	960.90	960.90	960.90	960.90	960.90	960.90	960.90	960.90
E-3	723.00	762.30	793.20	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70
E-2	695.40	695.40	695.40	695.40	695.40	695.40	695.40	695.40	695.40	695.40	695.40	695.40	695.40	695.40
E-1	620.40	620.40	620.40	620.40	620.40	620.40	620.40	620.40	620.40	620.40	620.40	620.40	620.40	620.40

E-1 with less than 4 months — 573.60

The chart above shows new monthly basic pay rates for military personnel following a four percent pay raise that took effect Jan. 1, 1985. The pay of O-9s and O-10s is capped under the federal executive pay ceiling at $5724.90 a month. (The cap figure that appeared when this chart was published in October was in error.) Tables at left also show new monthly rates for basic allowance for subsistence and, for most members, basic allowance for quarters. Under a "save pay" provision, officers with dependents in grades O-2, O-3 and O-7 and 0-2s without dependents will receive slightly higher BAQ than the rates shown

Dr. **Luttwak**. Senator, may I make a specific comment on this issue?

Chairman **Domenici**. Well, let's just wait. We will make a note so we do not——

Dr. **Luttwak**. It is very specific, on this issue.

Chairman **Domenici**. Go ahead.

REAL COST OF OFFICERS IS THE GOLDPLATING

Dr. **Luttwak**. Here we are, beginning to worry about pay and benefits for officers. We can compute the cost and determine that we are overspending by this or that amount. But, in fact, the excess number of officers involves costs which are altogether greater than their own pay and benefits, because where are all these excess officers? Many are in the systems commands. And what happens in an Air Force Systems Command that acquires only 2 fighter aircraft and a few missiles over 20 years but which has 34 general officers and hundreds of colonels? They all elaborate everything to the *n*th degree.

The real cost of those excess officers is not in their pay and benefits, howsoever high they might be, but rather, in the systematic over specification goldplating that is natural in a grossly overstaffed structure. To see the problem as a matter of pay and benefit is an example of the error of marginal approaches versus structural approaches.

Chairman **Domenici**. Mr. Stubbings, proceed.

Mr. **Stubbing**. OK. I would agree with that point. There is no question that one could do some thinning down in total strength and benefit from the process. But the incentives, as I will speak to today, throughout the system are not to change things, and that is probably the underlying problem that we face today.

HIGHLIGHTS OF THE SOVIET THREAT

The second question—what about the Soviet threat? Dr. Kaufmann has spoken to some of the things that are going on with the Soviets. I would just like to highlight one or two points. One, the Soviet perspective, you have to recognize, is somewhat different from ours. Since 1969, they have had a fairly large buildup in their forces, but most of that has been to counter a perceived threat on the China border. From the Soviet perspective, they see a threat from China that we, perhaps, do not realize as a serious one, and it takes a lot of their defense resources.

A second point—dollars are a poor substitute for capability in terms of evaluating the threat. The rhetoric has it that the Soviets—at least in the 1981-82 period, we heard a lot of this—are outspending the United States by 50 percent. I would just point out quickly that when the NATO allies are added to our spending, and the Warsaw Pact allies are added to theirs, the whole balance changes. If you believe in spending comparisons, the overall spending of the last 15 years has been greater on the part of the United States and NATO than it has been for the Soviets and their allies. Our combined spending has consistently been greater by the methodology, but the thing we should worry about, and the thing I would like to drive at, is they seem somehow to be outproducing us a bunch in the kinds of key things we worry about.

And I would leave you with this thought. We, the United States, together with our allies, are considered the most efficient industrial nations of the world, the Soviets are considered relatively inefficient, yet, in terms of our military capabilities, it at least appears that they are able to outproduce us. And you have to then ask the question why, and I will speak to that.

RELATING DEFENSE BUDGET LEVELS TO CAPABILITIES IS DIFFICULT

The third question—what goes on in the budget process. Now, the first thing I would like to assure you, as a veteran of the process, it is devilishly difficult to relate the defense budget levels to our capabilities or our national need, as both other speakers have at least alluded to. In interagency studies for several administrations conducted while I worked in Washington, it was fairly easy—I think Dr. Luttwak spoke to this—to define our national objectives—what kind of strategy and broad things we were trying to do. It was hell to try and get the dollars and forces agreed upon to carry those out. The problem came in pricing any single strategy. The price-out differences of any single strategy tended to overwhelm the whole matrix of options and it was a hopeless task, time and again. It is very hard to tie the budget process to our needs or our capabilities.

The way in which the money is spent is far more important than the dollar level itself, and what I would like to argue today is that we are not spending it wisely. The other speakers have addressed some of the ways that it gets distorted, and I would only echo those comments.

I am going to move to another level. I would say the budget review itself, what is going on right now, proves this point. I would call this a variant of the king has no clothes theory. There is the matter of cut insurance which is included in each year's Presidential budget for Congress to cut. I will point out that for the last 20 years, this has been going on. The only thing different is that in the last 3 or 4 years, the dollar level of cut insurance has grown from $2 to $3 billion a year to something like $18 billion a year. While the Secretary will come up and argue he needs every penny of the request that is before you, he is secretly willing to take the large, so-called cuts in the things that he does not need and can be deferred until next year. And the cut insurance by itself proves that the sanctity of the budget level is something that one wants to look at with a healthy bit of skepticism.

One thing I can speak to is that we are addressing the 1986 budget today, and I will argue that the money is there in 1986 if you look for it. If you want to take money out, it is there to be taken without hurting our capability. And I will cite Mr. Stockman's testimony of a couple of weeks ago, and the softest area is in the hardware programs—R&D and procurement. In Stockman's testimony, he points out the 33 major programs that we are committed to add up to some $45 billion. He neglected to talk about the other $88 billion of smaller programs included in the R&D and procurement. And if you do the arithmetic on those, you will find that those programs have grown $13 billion from 1985 to 1986, and after inflation, that is $10 billion.

$10 TO $13 BILLION COULD BE SAVED

One can argue that that kind of an increase in the nonmajor growth programs of defense could be held at a constant level in 1986, without hurting our defense capability. And that would save something between $10 and $13 billion in the budget. Some of it is already there for cut insurance, I can assure you; I just do not know the right level. And similarly, in the other parts of defense, you could find in the budget process other soft areas in the budget request. In the so-called readiness areas, including O&M and replenishment spares, an awful lot of the purchases we have made in the last 4 years have been what I call one-time moneys to fill up pipelines, one-time moneys to cut back on overhaul backlogs. The point of one-time moneys is that the next year when you get that same amount of money, you can apply it to further reduce your overhauls or to use it for ongoing continuing programs. It, in effect, becomes real growth the second year. So you have got billions of dollars that have been pumped into these one-time moneys in the readiness world that then become available in every succeeding year for new programs. And you should be aware that there is plenty of that in the defense budget.

FREEZE WOULD IMPOSE DISCIPLINE ON THE SYSTEM

The last question—should we freeze the defense budget level in 1986? I will argue that first, a freeze in 1986 still means a 1986 level 50 percent in real growth terms ahead of 1980. That is a tremendous growth rate.

Second, a freeze gives us a pause to catch up. The 1984 performance in spending would give you one indicator of what is going on in defense; a $10 billion shortfall in spending the last 6 months. That shortfall is indicative of the overload that is going into the system. There is so much in terms of new moneys and new dollars that the team of defense personnel trying to execute it cannot keep up. A freeze will help by slowing down the crunch of new orders and permitting the managers to run the programs in a better way.

Speaking of management—and again, I will agree with the Luttwak presentation—there are so many needs to tighten the management of the services which is where the critical need lies, that we have got to get on with that. Up until now, the incentive to do anything hard or of a nature that is difficult on defense has not been demanded of anybody. We have many marginal systems that are in development and production; yet, there are hardly any tough actions taken. There is just a critical need for some kind of hands-on management, and a freeze—this is where I differ with Dr. Luttwak—a freeze can serve as a discipline imposed on the system to try and force some kind of better management. I think without the freeze, the tendency to continue doing as we now do is built into the system.

I will stop at that.

Chairman Domenici. Thank you very much.

Senator Boschwitz?

Senator **Boschwitz**. Dr. Luttwak, you said that there was a ratio of 10 to 1 in officers, in your judgment?

Dr. **Luttwak**. No, it varies, actually, level by level. In junior officers, we have no surplus. For junior officers, the ratios we have now are very close to the ratios of 1945. When we get to the senior ranks on the other hand we may have five times more officers than we need, if mobilization is not taken into account.

Senator **Boschwitz**. And it is your position that because they all are very busy, that in effect their real cost is in what they keep themselves busy at rather than their pay——

Dr. **Luttwak**. Exactly.

PRESENT INCENTIVE IS TO SERVE OWN INTEREST

Senator **Boschwitz**. We have received a chart of pay, and it would appear that at least a captain after 3 years in grade is at about $30,000, not $38,000. But perhaps I am reading this wrong, and I add to that some dependent monthly BAS, whatever that is.

I did not quite follow the new structure that you are suggesting for the Joint Chiefs of Staff, but is it practical to say to people who are in one service or another, you are to lay aside your allegiance to that particular service. You have to come into this homogenized group and make decisions in a more inhibited fashion or comprehensive fashion, and then later on, I presume they go back; is that correct?

Dr. **Luttwak**. No, they cannot go back. If they have to go back, the essence of the national military staff proposal is lost——

Senator **Boschwitz**. The military what?

Dr. **Luttwak** [continuing]. The national military staff. Instead of the representational committees of which the Joint Chiefs is made, we would have a single body. It is the incentives that should be changed. The present incentives for officers serving in the joint commands and in the JCS itself are to promote their own service interests. Any lapse into a national perspective, any failure to uphold ruthlessly service interests, whether in planning an operation or in allocating budgets, tends to be punished. Loyalty to the service, to the narrow, bureaucratic, service interest is ruthlessly enforced.

The national military staff must be a one-way system.

Senator **Boschwitz**. At what point does an officer get into that more homogenized, as I say, Joint Chiefs, or central service——

Dr. **Luttwak**. I think any detailed decisions on those matters should be made by Congress, following hearings and careful studies. But obviously, one cannot just have generals and admirals; they need to have staffs too. So a multiple-level entrance system is essential, where, let us say, officers might join at any rank above the most junior; but I would not like to lay down specifics on that.

INTERNAL PRIORITIES WILL NOT BE CUT

Senator **Boschwitz**. Dr. Stubbing talked about a freeze, and there has been a lot of talk about that up here on the Hill, and you did not address that——

Dr. **Luttwak**. Well, if I may quickly go over a couple of points pertaining to the budget freeze proposal. If Congress were to impose a freeze, one is talking presumably about cutting the request, which is $313.7 billion, back to $296 billion, which would be the freeze level allowing only for inflation. In other words, one would have to cut $17 billion. Dr. Stubbings says that to do so would impose a healthy discipline. My own belief is that under the present system, the $17 billion of the cuts would be applied by each service according to its own internal priorities, and what would be cut would probably be the "national" missions. They will not cut that which is near and dear to them according to their own internal, traditional priorities.

Senator BOSCHWITZ. Are you about to repeat Dave Stockman's statement that they are more interested in their pensions than they are in the national interest? Let me ask you——

Dr. LUTTWAK. I was not. My experience with the military officers of this country has been that they are, in fact, very dedicated and, very patriotic, but that they are also prisoners in a structure that makes them systematically do things that they know are wrong. But I do not see our officers as, a self-interested and irresponsible lot, out to get what they can; not at all.

THREE-YEAR PROGRAM PREFERRED OVER A FREEZE

Senator BOSCHWITZ. Suppose, rather than freezing them for a year, we gave them a 3-percent real growth and locked it in by reconciliation for a 3-year period so they know where they are coming from, not year to year, but in a more consistent fashion. What would be your reaction to that—and you still have not said whether—are you then against the freeze because you are afraid the wrong things will be suggested? Tell me if that reaction that I have to your statement is correct; and then, suppose we give them a 3-year leash and we give them a 3-percent real growth in each one of those years—is that an appropriate thing?

Dr. LUTTWAK. I think that a growth limit would be much more sensible than a freeze, but I cannot believe that we can gain now in the long run from anything but a structural reform. Palliatives are dangerous when they obscure the need for reform. This patient needs surgery, not aspirin.

Senator BOSCHWITZ. Without disagreeing with your structural reform, if we get involved in that, the budget will never get taken care of, because we are going to have arguments up here for a long time to come. Let us presume that the structural reform, particularly if there is this overabundance of officers who are all turning out a lot of work, that is expensive in and of itself—let us presume that that should occur. Let us presume that we should work on that on the budget—what should we do? We should not freeze perhaps, because of your objection to it, but should there be this phased, 3-year program?

Dr. LUTTWAK. I would definitely prefer the 3-year program to a freeze, absolutely, no question in my mind.

Senator BOSCHWITZ. And is the 3-percent real growth an appropriate number, in your judgment?

Dr. LUTTWAK. You know, I spend all my time working on defense problems alone, and yet I do not feel that as an individual I can give you an answer. I know that any steady, 3-year growth program would be greatly superior to a freeze. But I cannot say that 3 percent is enough.

Senator **Boschwitz**. The lights are flashing on and off, and I do not know what to conclude here, but I suppose I should conclude, if you spend all your time studying this and working on this, what the hell am I supposed to do? I am over there with the farmers and the other people, and not to speak of the Foreign Relations Committee, I have talked to every busman who travels through town here. So I suggest to you, Dr. Luttwak, that you should conclude—if you cannot, I cannot.

Dr. **Luttwak**. I would prefer the 3 percent over 3 years to the freeze.

THREE-YEAR PROGRAM IN NATIONAL INTEREST

Senator **Boschwitz**. And do you think that that would serve our national interest?

Dr. **Luttwak**. Yes; as opposed to a freeze, because I do not know what will happen next, or what the mood will be next year.

Senator **Boschwitz**. Is it adequate?

Dr. **Luttwak**. Yes and no. There is a terrific problem of complacency. What is most serious about the Soviet military threat is that the Russian Army—drunken, maybe, vicious in its internal discipline, maybe, certainly inefficient by our criteria, is nevertheless an effective and serious institution. Our complacency vis-a-vis the Soviet military threat is a reflection of our delusions of adequacy.

Every time we encounter the reality of combat, we discover that we do not perform well at all. And yet the day after we start forgetting about our failure, and revert to our delusions of adequacy.

So I am not optimistic. I will say, however, that I would prefer 3-percent growth over 3 years rather than the abruptness of a freeze. It is my deep belief that there is no cut insurance of $17 billion in this budget. If $17 billion must be cut important things would be lost.

Chairman **Domenici**. Senator Sasser?

NET ASSESSMENT OF BROAD MISSION AREAS

Senator **Sasser**. Thank you, Mr. Chairman.

Dr. Kaufmann, for a number of years, we have been advised that the Soviet threat is growing, and we need to accelerate our investment in our Military Establishment to keep up with the Soviet threat. This morning could you provide us with a brief net assessment of the following broad mission areas that I think you touched on earlier: No. 1, forward defense in Europe; No. 2, protection of the vital sea lanes, and No. 3, strategic second strike capability.

Dr. **Kaufmann**. Those are always very difficult to provide, but using the very standard methodologies that are applied for that sort of purpose, I think in the first place, one has to talk very probabilistically about all of these things. It depends very much on the degree of risk that the President and Congress wish to take and the kind of forces that are provided.

I should add that the kind of measures that are used tend to assess largely the materiel that are provided, since that tends to be the main function that the Secretary of Defense and his assistants really have. The services provide the training, the tactics, the strategy, and so forth. But with all those qualifications, I would say if one takes what I would regard as sensible threats in the central region of Europe right now, one would have to say that the probability of conducting a successful forward defense is in the range of 50 percent or lower, 50 percent probability of success.

Senator **Sasser**. Is that appreciably higher than it was 5 years ago?

Dr. **Kaufmann**. No; it has not really changed. But that is in part because the new equipment that the current administration has ordered is only just beginning to come on line. To the extent that changes have taken place in the force structure so far, they have been largely a function of changes made by, or funding by the Ford and Carter administrations. We are only just beginning to see the changes across the board that have been instituted by the Reagan administration.

Shall I continue on the assessment?

Senator **Sasser**. Did you get to the question of protecting the sea lanes, keeping them open?

Dr. **Kaufmann**. I would say that we have very high probability over a 3-month period, assuming that that were available, of delivering the tonnages required to support the forces in the various theaters. And I regard that as the key measure, whether we are able to put the tonnages through to the forces in the field. I think that probability is very high over a 3-month period, although in the first month the expectation is that we would indeed suffer some quite serious losses in shipping.

On the strategic forces, very quickly, I think all the standard estimates would probably agree that we are currently capable of delivering, in what is known as the expected value sense, on the order of 2,800 warheads on a second strike after a very well-executed Soviet first strike against U.S. ICBM's, bombers, and submarine ports. With the improvements already under way, that number will go up well over 3,000. That is on a day-to-day alert. In a generated alert, when the forces would be on very high alert, you would expect the number to go up to something over 5,700 warheads delivered.

Senator **Sasser**. So, Dr. Kaufmann, I gather that based essentially on Ford/Carter policies and spending priorities, we have got a 50–50 change of a successful forward defense in Europe. We can protect the vital sea lanes to deliver the necessary supplies and carry the necessary tonnage for at least a period of 60 days, and we certainly have an adequate second strike capability.

Is that a fair summary of your——

Dr. **Kaufmann**. Well, I think there are some weaknesses, Senator——

Senator **Sasser**. But what I am driving at, Dr. Kaufmann, is all of the conversation about a decade of neglect, even with a decade of neglect, we have got these capabilities that you have laid out here, so this business of a decade of neglect sort of rings hollow to me.

Dr. **Kaufmann**. Well, I agree that the rhetoric about the decade of neglect has been exaggerated. We spent $185 billion in then-year dollars from 1975 to 1980 on procurement alone. That would translate in 1985 dollars to roughly $375 billion. So I think we are talking about a non-trivial amount that has gone into the procurement accounts in the period that has been alleged to be a decade of neglect.

PUTTING MX MISSILES IN MINUTEMAN SILOS A LOSING GAME

Senator SASSER. One final question for Dr. Kaufmann. Many who originally supported the MX missile have expressed reservations about putting the MX in the old Minuteman silos.

Could you provide us with your viewpoint on this and elaborate on the possibility that putting MX's in old Minuteman silos might move us to a launch-on-warning strategy?

Dr. KAUFMANN. I frankly think, sir, the danger of our moving to a launch-on-warning strategy is not very high because of all the other capabilities that are more survivable than the land-based ICBM's.

However, I do think that putting the MX in the current silos, even if they are hardened still further, is a losing game, I regret to say, because the expectation is that by the late eighties, the Soviet Union will be able to knock out on the order of 95 percent of those silos. So it really just does not look like an attractive proposition anymore.

Senator SASSER. So security really, as far as missiles is concerned, is tilting in the direction of the Trident-D5, is that a fair statement?

Dr. KAUFMANN. Yes, sir. I think the guidance on the MX is proving out extremely well; it is a superb technical feat. But I think the accuracy of the Trident-II, the D5, will be such that not only will it constitute a major threat to the Soviet silos, but it will be substantially more survivable than the MX.

$30 BILLION OF WASTE CONSERVATIVE ESTIMATE

Senator SASSER. One final question for Dr. Stubbings. Dr. Stubbings, in 1981 in the infamous Atlantic Monthly article, David Stockman stated that there was a swamp of $30 billion of waste in the Defense Department. Since that time, we have considerably accelerated defense spending; this $30 billion swamp now appears that it might have been a conservative estimate. Have you got any views on that?

Mr. STUBBING. I think it probably is a conservative estimate. The former Deputy Secretary of Defense, Paul Thayer, was quoted as saying that he believed something between 10 and 30 percent of defense purchases are waste. That gets to be fairly large numbers say $20 to $60 billion annually, since in 1985 defense will purchase about $190 billion a year in weapons equipment and services.

My experience over the years would suggest that the 10 to 30 percent estimate of Thayer's is not unreasonable, that there are just extreme lengths defense will go to protect contractors' survival such as allowing for large unit cost increases and bailing them out when they get into trouble. I did not talk about that earlier, but something like the F-16, which costs $10 million a copy, this cheap fighter in 1981, it jumps to $16 million in 1982—the same fighter, the same production line, 60 percent increase in cost, and then it leaps another 25 percent in 1984-85, for no clear reason. This goes on for system after system in the defense category. It seems to be all right for the contractors to charge what they will, and "Uncle" will pay it.

So there is a real problem of poorly spent moneys throughout defense. That comes back to my fundamental point, which is that I strongly believe that a dollar input is no measure of capability. Until we can clean up the act and start getting a better performance or usefulness of the extreme, large moneys we are pumping into defense each year, it does not make a lot of sense to me to keep pumping new money on top. I just think that is where we have to start with the surgery.

Senator SASSER. I guess the good news, Mr. Chairman, is that we are getting a better buy on toilet seats now than we were a few months ago.

Thank you, Mr. Stubbing.

Chairman DOMENICI. With that, the Senator's time has expired. Our clock is broken, so you will have to trust me.

Senator SASSER. All right.

Chairman DOMENICI. I have not asked any questions, but Senator Kasten, are you pushed for time? If you are, you are next.

Senator KASTEN. If I can——

Chairman DOMENICI. Surely. Go ahead.

FUNCTIONS SUBDIVIDED TO ABSORB SURPLUS OFFICERS

Senator KASTEN. Thank you, Mr. Chairman.

We talked earlier, Dr. Luttwak, about the question of field grade and flag officers, and you pointed out in your book that the ratio of company grade officers to enlisted men remains constant, but the problem is in the field grade and the flag officers, and that ratio, we are basically one to six right now. We have got six times as many as we had in the mid-1940's. Is that correct?

Dr. LUTTWAK. Yes.

Senator KASTEN. You argue that this whole problem has led to a proliferation of overstaffed headquarters, directorates, and that because these people on active duty have got to be kept busy, and since there is a relative shortage of command slots, the increased number of officers has been absorbed—and this is a quote from your book—

> * * * by a process in which the military bureaucracies keep expanding, not merely by increasing the size of each command, headquarters, department or bureau, but also by subdividing their functions to absorb the surplus officers in many new separate offices.

Can you, in 30 seconds or less, give me one or two specific examples of that, in the new offices——

Dr. LUTTWAK. Well, the organizational chart of the Air Force systems command, which is also in my book "The Pentagon and the Art of War" shows the minute subdivision of functions. We want to find out why the F-16 costs as much as it does, we discover that it is not because of the fuselage, engine, or main systems. Much of the cost is due to the subsystems. With a separate office entirely dedicated, let us say, to the environmental systems onboard fighter aircraft.* * *

Senator KASTEN. With a field grade, or a high-ranking officer?

Dr. **Luttwak**. With a colonel, answering to a general in headquarters, that is right. And that group will be dedicated to putting the best possible, the ultimate environmental system onboard the aircraft. It is such narrow-focused striving of technological ambition quite unfettered, that account for the very high cost of our weapons.

FEWER WELL-PAID OFFICERS PREFERRED

Senator **Kasten**. What would you say to a proposal that Congress somehow establish a cap on active-duty officers at a certain grade—just lock in the numbers—that would restore the officer-to-enlisted ratios which prevailed, let us say, at the end of World War II?

I guess I want to ask you two questions. Would you be in favor of Congress somehow enacting a cap; and then, the second question, if so, would the World War II level be appropriate?

Dr. **Luttwak**. The World War II level might be too low, but the relationship to be enforced should be between the mobilization capacity that we can maintain, which depends on the weapons we can mass-produce, and the number of offices we keep.

Senator **Kasten**. As you may be aware, Senator Rudman and a number of us on the Defense Appropriations Subcommittee are looking at part of this same question, and may be coming forward with specific recommendations in the defense appropriations process.

But just taking the next step, could we——

Dr. **Luttwak**. I would like to see fewer officers but—I would hate to see pay and benefit cuts. I would like to see fewer officers but well paid, in fact a system where there is a shortage of officers, so they would focus on the important things.

Senator **Kasten**. And in this process, would you suggest that we then, in times of emergencies, would be able to rely more on Reserve officers to meet mobilization requirements, or is that part or not part?

Dr. **Luttwak**. Absolutely. So many functions of the military require civilian expertise. By all means. Reserve officers in lieu of active duty.

MULTIYEAR BUDGETING

Senator **Kasten**. I would like to ask you—we talked about people suggesting that the congressional budget process—and I think all three of you did—bears some of the blame for creating the problems of Defense management by distorting the incentives. What do you think about proposals to replace the current year budget cycle with a multyear budgeting?

Now, you said "Yes."

Dr. **Luttwak**. Absolutely.

Senator **Kasten**. Is it "Yes," "Yes," "Yes"—Dr. Kaufmann?

Dr. **Kaufmann**. No.

Senator **Kasten**. Mr. Stubbing?

Mr. **Stubbing**. Yes, I can support that.

Senator **Kasten**. And my last question—what about a budgeting process, if you were to shift it from a line-item budgeting, if we could somehow express our budget in terms of budgeting missions?

Dr. **Luttwak**. Yes. That is crucial. Line item micromanagement is the death by 1,000 cuts. It is a license for a myriad last-minute changes that are very disruptive.

Senator **Kasten**. I happen to agree with you.

Dr. Kaufmann—fund missions, rather than line by line?

Dr. **Kaufmann**. No; both.

Senator **Kasten**. Mr. Stubbing.

Mr. **Stubbing**. Both. You are going to continue to manage it the other way—by function. That is the problem.

Senator **Kasten**. Thank you, Mr. Chairman.

Chairman **Domenici**. Senator Johnston?

Senator **Johnston**. Thank you, Mr. Chairman.

Gentlemen, we made an analysis of the last 4 years of Reagan budgets, and found that the Congress has cut, I think, about 5 percent each year, without any weapon systems at all being canceled, without any discernible changes, and that figure, I guess we would call cut insurance, that 5 percent.

FIGURES ON CUT INSURANCE

My question to each of you, without telling me how the clock is made, if you could just give me the figure that you have in this year's budget as cut insurance, before we begin to make reforms, which by the way, I think need to be made, but how much is just pure cut insurance

Dr. Luttwak?

Dr. **Luttwak**. I think not more than $6 billion. I would not go below that—the freeze level would amount to $296 billion with inflation. What the Pentagon asks for is $313.7. But any level below $307 or so would start removing pieces from the overall pattern and weaken us disproportionately, I believe.

Senator **Johnston**. Three hundred seven billion?

Dr. **Luttwak**. Yes. I would not advocate a penny less given the way things are now set up.

Senator **Johnston**. Dr. Kaufmann?

Dr. **Kaufmann**. I really cannot answer the question, Senator, because I am impressed by the fact that a year ago, the fiscal 1986 budget proposal was $350 billion. It is now down, rounding, to $314 billion, so that $36 billion has disappeared from that budget in a year, without there being any apparent change in the program. So I am willing to give the Secretary the benefit of the doubt and say he really took out the cut insurance when he got rid of that $36 billion, and that we are now down to the serious programs.

Senator **Johnston**. All right. Let me ask Mr. Stubbing what his figure would be.

Mr. **Stubbing**. Senator, since I stated I support the freeze, I believe that easily, you can take out the money, the $17 or $18 billion you need, to hold the 1986 budget at 1985 plus inflation, and still allow some real growth. The way I could see doing it would be hardly touching the major programs.

Senator **Johnston**. Without reference to how to do it, I just want to get the figures.

Mr. **Stubbing**. OK—$17 or $18 billion, you can handle that, easily.

REFORMS NEEDED IN PERSONNEL AND RETIREMENT

Senator **Johnston**. Thank you.

Second, Dr. Luttwak, we talked about personnel problems, which—what do we have, 52 percent of the budget, I think, in personnel—I think it was you who talked about the rising tide lifts all boats, that is, you need one——

Dr. **Luttwak**. Dr. Kaufmann, or Mr. Stubbing.

Senator **Johnston** [continuing]. OK, where we increase everybody. What can we really do in this Budget Committee to get these reforms in either personnel or retirement, I think, both areas. Is there anything practical we can do in this committee?

Dr. **Luttwak**. The proposal we just heard, which is to start reducing the number of officers—not to devalue them or depreciate them, but rather to have very well-paid officers, but fewer of them.

Senator **Johnston**. Well, how about this problem of paying everyone because we need some specialties?

Mr. **Stubbing**. Well, the economic corrective to that is to break the bond that now exists. And unfortunately, it is in the interest of the people Dr. Luttwak is worried about, the higher staff, the higher level guys—the colonels and generals and admirals—because they financially came out the best under the current system. They make out the best, because their salaries are the highest, so with each across-the-board percentage pay increase, they receive the largest dollar increase.

What you have to do is break that, and that means reform of the military pay system. I have to say that that is a fundamental question that lies before you. Now, how are you, as a Budget Committee——

Senator **Johnston**. How do we get from here to there?

Mr. **Stubbing** [continuing]. Going to do that, I do not know.

STRATEGIC NUCLEAR CAPABILITIES MUST BE RELIED UPON

Senator **Johnston**. Finally, let me ask another question. I am very impressed by the fact that we have got a minimum of 2,800 warheads on the second strike to go well over 3,000. How many do we need to do the job, mutually assured destruction or whatever? It seems to me that is more than we could possibly use, and that to put additional warheads on top of that is really redundant.

Does everyone agree that is so?

Dr. **Luttwak**. Absolutely not. Our nuclear weapons are not there just to deter nuclear attack. If our strategy were only mutual nuclear deterrence, we could do without the MX. The problem is that we have to rely on our strategic nuclear capabilities to offset our conventional inferiority.

The balance that has prevented a third world war all these years has been asymmetrical: The Soviet Union always been stronger in conventional forces, mainly land; we have been stronger in high-tech, long-range forces, mainly nuclear.

To work out what nuclear capabilities we need for assured distruction does not answer the question. We must rely on the strategic nuclear superiority, and images of superiority to overcome the Soviet advantage in conventional forces.

If we had a conventional parity, Senator, I would be perfectly willing to agree to nuclear parity.

Senator JOHNSTON. I am persuaded that there is this asymmetry. But for example, if we had 3,000 warheads that would hit the United States, that would be 60 per State. I can tell you, my State, which is about an average size, could not absorb 60 very well.

Dr. LUTTWAK. We all know that if it comes to an all-out nuclear war, nothing would help at all. But ours is not a war-fighting nuclear deployment. Our war-fighting deployment is conventional; it is made of the soldiers we have in Europe, with rifles, mortars, armor, and so forth.

The nuclear balance by contrast is shaped by perceptions of power. It has been so from the beginning. And if we accept nuclear parity, whereas the Soviet Union has conventional superiority, then we would have overall inferiority.

NUCLEAR MEANS HAS PROVIDED THE OVERALL BALANCE

Senator JOHNSTON. I know, but just how do we use these? How is that useful to the policymakers, to say, well, we have got 9,000 to 10,000; we need the MX, now, to put on top of that. Of course, that is not even speculative. I assume the MX was not included in that 2,800 to 3,000—at least, not very many of them.

Why do we need this redundancy of missiles?

Dr. LUTTWAK. The overall strategic relationship between us and the Soviet Union has been shaped from the beginning by Soviet conventional superiority. We arrived in Europe at the end of World War II and assumed responsibility for the protection of Europe, but we failed to create a large European army. A great power in Europe needs a large army. We never had it. So we have relied on nuclear weapons; we innovate; they follow; we innovate again and they follow again. That is how we have maintained an asymmetrical balance.

Now, if right now, we interrupt this process, and the MX is cut on the grounds that out of 100, only 5 will survive—that is a worst-case assumption and even that would give you 50 warheads, by the way—and if Congress reduces the Strategic Defense Initiative request, which is now $3.7 billion, the Soviet negotiators will say, oh, well, the Americans are reverting to form. They have their brief enthusiasms for rearmament, and then they revert. It is because of our failure to keep up a long-term effort that the Soviet Union, with 60 percent of our GNP, now, has an overall military superiority, which compensates for all their other disadvantages.

If Congress cuts the MX and seriously reduces the SDI, then please do not expect any positive outcome in the negotiations to come. I deeply believe that cutting the MX means undercutting the negotiations. Cutting the SDI drastically would also undercut the negotiations. The military balance is dynamic. They have maintained their large and powerful army while we keep refusing to create large and, powerful continental forces. Instead, we have preserved equilibrium in the overall balance by nuclear means.

ARMS COMPETITION A SUBSTITUTE FOR CONFLICT

Senator JOHNSTON. Well, forgive me if I am a little skeptical on this arms control business. I have seen more weapon systems built, and continue to be built, to be saved as a bargaining chip, and somehow, nothing ever happens on the arms control in the first place.

Dr. LUTTWAK. Because the arms competition is a substitute for conflict. How have we avoided a conflict with the Soviet Union despite all our crises and fundamental disagreements? By finding substitutes. One substitute is low-threshold conflict and indirect conflict. But another way that the conflict has been adverted has been by means of the arms competition. And arms control is part of the process. Arms control does not control arms. You are quite right. What it does do is to provide another channel for the competition.

Senator JOHNSTON. Sort of like the United Nations.

Dr. LUTTWAK. Yes. That is how we are avoiding a conflict.

Senator JOHNSTON. It costs a lot more than the United Nations to have these——

Dr. LUTTWAK. It costs more than the United Nations, quite so. The alternative would be to acquire a great European army by means of a national service draft.

If you now come along and say, "This particular nuclear weapon does not persuade me," Then it means that you are looking at only one side of the military balance, and undermining its war-averting equilibrium.

SOVIET ARMY MUST BE BALANCED

Senator JOHNSTON. Well, Dr. Luttwak, I think my time is about up, but I really would like to continue this. For the life of me, I do not understand how so many smart, capable people can be for a system like the MX, that is a mission without a deployment mode, that was built to do something else, and it seems to me is just continued only by the momentum of the military-industrial complex, or the "arsenal of democracy" or whatever you want to call it. But it looks to me like it is just that continued momentum, without being able to accomplish anything.

Dr. LUTTWAK. Yes. The MX has no virtues, other than the fact that it is the one system that we can build today, as opposed to better systems that we cannot build today.

If you propose a symmetrical balance, Senator, where we would only have a strikeback capability by some, minimalist definition of parity, now we would not need MX—nor lots of other weapons. I fully accept this so long as Congress also provides a large conventional army, because what we are now trying to balance is not the Soviet Union's nuclear capability, which is only designed to keep our own nuclear forces off their backs but rather the Soviet army.

Senator JOHNSTON. Thank you. I would really like to ask some more.

Chairman DOMENICI. Well, you can stay here, and then you can have another turn.

Let me tell you, Dr. Luttwak—and I hate to do this, because I am not equipped to compete with you—but I think you have succeeded today in getting some very dramatic quotes that you will read about on how we are wasting a lot of money on defense.

And yet, for those who have stayed around the last 10 minutes, they have seen a completely different mindset from your standpoint. I do not think there is any question that, while you have had some very good adjectives and adverbs to express our waste, you are probably about as much of a "super-hawk" as I have seen here before us. And that does not bother me a bit. I think that is great. I tend to agree with your concern about the Soviet threat.

But it does seem to me that we have a real problem, because I guess Congress from time to time, for 10 years, has talked about reforming the Joint Chiefs, and I remember there have been some serious proposals. But nothing seems to happen, for whatever reason, I do not know why. We are just one committee, and we have very little line item authority, although perhaps this year, we could exercise a little more in a number of areas than we have in the past and take a gamble and see what happens on the floor.

CUTS IN DEFENSE BUDGET WOULD REQUIRE STRUCTURAL REFORM

But if I read you right, you really do not think we can cut much out of the defense budget unless there is major structural reform; is that not correct?

Dr. LUTTWAK. Yes, Senator.

Chairman DOMENICI. So that if Congress does not intend to get major structural reform, then I would assume some significant reductions aimed at pushing less spending would, in your way of thinking, cause a very serious risk in terms of the balance you have been describing; is that correct?

Dr. LUTTWAK. Yes, sir, because it would remove at random, or rather, by the random mechanism of single—service decision, important, pieces from the overall pattern. We may have the tanks, let us say, but we would not have the bridging equipment for them.

Chairman DOMENICI. Well, Doctor, if we did have this reform you are talking about, how long would it take to create the efficiencies you are speaking of?

Dr. LUTTWAK. I think that if we can implement a reform this year, we could start obtaining economies as of next year as existing forces and missions which have been perpetuated for 40 years begin to be seriously questioned. The national military staff I propose would start cutting big pieces and adding others right from the start.

POLICY CHANGE COULD BRING SAVINGS WITHOUT GREAT RISK

Chairman DOMENICI. Well, I think there might be a way that has less risk. If I read you correctly with reference to the maintenance of our overall military and civilian force, that we have an extremely large military and civilian force in numbers because of the concept of being ready for mobilization——

Dr. LUTTWAK. Yes, sir.

Chairman **Domenici** [continuing]. Yet you have told us that we could not mobilize in that manner if we had to, without at least some significant time lag. Is that correct?

Dr. **Luttwak**. Yes, sir, because of the equipment.

Chairman **Domenici**. You cannot produce it.

Dr. **Luttwak**. It is not produceable.

Chairman **Domenici**. All right.

Dr. **Luttwak**. And we do not even have, alongside the high-class items, any lower-end weapons that are mass-produceable prototype.

Chairman **Domenici**. I understand. So it would seem to me that one area we could begin some major savings without any significant risk is to change that policy——

Dr. **Luttwak**. Yes, sir.

Chairman **Domenici** [continuing]. And go ahead and acknowledge we are not prepared to follow up with the kind of mobilization of sophisticated, low-rate-of-production items, and that both could be built up probably equally as fast, if you had a real confrontation; you could probably build the mobilization capacity and supplement it with some reserves while you are building the others.

Is that a fair assessment?

Dr. **Luttwak**. Yes, except in some very narrow, highly-specialized critical areas.

Chairman **Domenici**. All right. If that is the case, then it seems to me the proposal that Senator Rudman, at 10 this morning, expressed publicly and will pursue, in terms of manpower, makes some sense.

Are you aware of his proposal?

Dr. **Luttwak**. Yes, sir.

AMOUNT OF MANPOWER HAS NOTHING TO DO WITH COMBAT CAPACITY

Chairman **Domenici**. Now, he does not only address the excess in officers; he addresses the enormous imbalance that you have now told us today, which is the enormous manpower out there that has nothing to do with combat capacity.

Dr. **Luttwak**. Yes. But I would be selective in one regard. The Army, by a very commendable initiative, is now giving the nation additional divisions—the light divisions—without any addition to its total manpower. And I do think that the Army's initiative should be recognized, and that it should be singled out and given incentives to do more. If the Army is now cut like everybody else, even though it is greatly improving the overall ratio between forces and overhead we will send the wrong signal.

The Army is going to be increased by five divisions, and I think that they will be effective divisions. The Army ought to be given the extra manpower slots to encourage it down its present path. If the Army is now reduced on the same basis as the other services, it will learn from the experience that it is useless to try and improve materials.

Chairman **Domenici**. Let me just read you a couple of numbers, and tell me if you think, based on your study of this, whether these are the kind of support numbers that are in place principally because of this notion of mobilization necessities.

Senator Rudman says only 258,000, or 14 percent, of those in the military had their specialty or skill listed as combat.

Dr. LUTTWAK. Yes, sir.

Chairman DOMENICI. 290,000 had their skill listed as "administration and clerks."

Dr. LUTTWAK. Yes, sir.

Chairman DOMENICI. 534,000 had their specialty listed as repairmen, 30 percent of the total number of enlisted men in uniform.

I assume that your research has probably revealed much the same information?

Dr. LUTTWAK. Yes.

Chairman DOMENICI. Of the 2.1 million men and women in uniform, 752,000 are assigned purely to support functions.

Dr. LUTTWAK. Yes.

Chairman DOMENICI. He says this does not include hundreds of thousands of others who have support assignments, but are detailed to strategic and tactical forces; 155,000 are employed at training facilities.

Dr. LUTTWAK. Yes.

Chairman DOMENICI. 311,000 are not assigned to any unit, including 74,000 between assignments and 213,000 students and trainees, excluding cadets corps and the service academies.

Of 1 million civilian DOD, 522,000 are providing the same support functions as the uniformed personnel mentioned above.

Then, 274,000 working in industrial or commercial functions, like printing plants, public work centers, and laundries.

RATIO OF OFFICERS TO ENLISTED MEN HIGH

Too many officers, he says. The ratio of enlisted men to officers was 6.3 to 1 in 1980; in 1962, it was 7 to 1. Since then, DOD has added one officer for every three enlisted men, and today, the ratio is 5.9 to 1.

I assume that is extremely high.

Dr. LUTTWAK. It is very high, sir.

Chairman DOMENICI. In 1945, there were 139 officers with a rank of three- or four-star general, or admiral, and above, commanding 12 million men. Today, there are 152 three stars and higher commanding, and they have one-sixth the number of men.

Are those the numbers you have found, also?

Dr. LUTTWAK. Yes, sir.

Chairman DOMENICI. There are 140 major generals in the Army, although the Army has only 17 combat commands and a handful of operational commands for that rank.

Dr. LUTTWAK. Yes, sir.

Chairman DOMENICI. One hundred times as many captains in the Navy as there are seaboard commands for captains.

There are 30 Air Force colonels for each squadron command.

Dr. LUTTWAK. Yes, sir.

Chairman DOMENICI. I assume, then, that if there is some way for us to reduce this overabundance of military, and civilians, both in the officers ranks and the nonofficers ranks, that you would assume that it could be done with a minimal risk, allowing for the success the Department of Army has had; is that correct?

Dr. Luttwak. Yes, sir—rather than reducing individual pay and benefits. I would like to see very well paid, but fewer officers, but I would not want to depreciate or degrade them.

Chairman Domenici. His proposals, while I do not know whether they are too much, too quick, would save about $23 billion in outlays in 3 years.

Dr. Luttwak. And much more, indirectly. There will be all sorts of invisible benefits, as we go from an overofficered to a less overofficered structure, they for officers would find less reason for the needless elaboration of everything.

PROPOSAL CLOSE TO BUDGET AUTHORITY FREEZE

Chairman Domenici. I do want you to know that, while you do not support a freeze in budget authority, that this proposal by Senator Rudman, coupled with what the President has already said he was willing to do, is very, very close to a budget authority freeze.

Dr. Luttwak. Yes. In this case, however, the freeze level would be achieved by structural change, as opposed to simply imposing a freeze and letting the services allocate the cuts, in which case they would cut all the wrong things.

Thank you, sir.

Chairman Domenici. I understand. But we may have to assume for once, if we put the freeze on, that somebody will do something out of the choices that is the most appropriate one. But that is probably too great an assumption.

Dr. Luttwak. I support Senator Rudman's proposal, without any reservations.

Chairman Domenici. Have either of the two witnesses had an opportunity to review the Rudman proposal?

Dr. Kaufmann. No, sir.

Mr. Stubbing. No.

Chairman Domenici. I wonder if it would be asking you too much for this record, since you both do an awful lot of work in the area, if I were to give it to you, or ask the distinguished Senator Rudman to give it to you, if you would mind commenting for the record—and how much time might that take you to get your comments ready, so we will have them? Could you do it in a week?

Mr. Stubbing. Sure. I would be happy to.

Chairman Domenici. Dr. Kaufmann.

Dr. Kaufmann. I will try.

Chairman Domenici. All right. I appreciate it. We will submit those to you, and we appreciate your answer.

[The following was subsequently supplied for the record:]

February 21, 1985

Dear Senator Domenici:

I have read Senator Rudman's proposal, but I don't want to pretend that I've given it the detailed analysis it deserves. My general reaction is one of doubt that major reductions in the cost of military personnel can be made without changes in the nature of military compensation, reductions in the force structure, or both. Somewhat more specifically, there are five grounds on which I question whether Senator Rudman's cuts could be made without damage to the military effectiveness of U.S. forces.

1. A great deal of effort, post-Vietnam, went into removing the support personnel associated with the wartime buildup. Thus, while some excess may have crept back into the structure, I doubt that it is on a significant scale, considering the overall size of the armed forces. We are now trying to operate a force not that much smaller than it was 20 years ago, but with about 500,000 fewer military personnel and the same number of civilian employees. In these circumstances, I would be wary of percentage cuts short of much more information than Senator Rudman has provided.

2. The increase in maintenance personnel is the inevitable reflection of the growth in complexity of U.S. equipment, shorter mean-times between failures, and the need for the more time-consuming repair work at the intermediate and depot levels. Unless Congress permits more civilianization and contracting out, the demand for military maintenance personnel is almost certain to increase rather than decrease as the newest generation of equipment enters the inventory.

3. The additional personnel requested by defense is in anticipation of the expanded naval and tactical air forces programmed by the administration. If these increases are to be denied, they should probably be accompanied by reductions in the 600-ship navy and the 42-wing tactical air force.

4. Because of personnel constraints, increasing reliance is already being placed on the reserve forces. As one example, the Army--with about 200,000 fewer people than it had in the early 1960s--is trying to field 18 divisions plus independent brigades (as against 16 and two-thirds divisions in the earlier period). In this connection, I doubt that the Army is being more efficient than the other services; it is simply depending more on the reserves for critical roundout battalions and for the initial and sustaining support increments that it would need in the event of a major conventional conflict. Whether the reserves are being funded adequately to perform these functions, and meet the Army's

timetable for mobilization and deployment is an issue worth some attention.

5. We have not yet by any means solved the problems of the all-volunteer force; as unemployment declines, the kind of people sought by the armed forces become more difficult to obtain and retain. We could require the services to lower their standards for recruits; we could also change the system of military compensation. Short of such increases, however, I doubt that we can meet our personnel goals and save money on military pay.

In summary, while I strongly sympathize with Senator Rudman's effort to reduce defense spending without hurting the defense establishment, I question whether we can reach his objective without making some painful choices about procurement. There may be some fat in the armed forces; there may be cut insurance in the budget. But I do not feel at all confident that there are any large free lunches left in the administrations request.

Very truly yours,

/S/

William W. Kaufmann

Chairman Domenici. Senator Grassley.

Senator Grassley. Thank you, Mr. Chairman.

I think I would like to comment right where you left off, that unless we freeze the budget first—if we wait around for the structural changes, they will never come, because the whole incentive system is based around the input as opposed to the output, and only by sending a message through the budget would we be able to make changes. Efforts for structural change in the past just have not been very effective.

Mr. Stubbing, I have a paper that I passed out 2 weeks ago to the other members of the committee that I would like you to get before you leave. It analyzes many of the points that you raised about our output problems, and it makes many of the same conclusions you have reached.

GROWTH HAS GONE TO HARDWARE PROGRAMS

I have a question of you. How much of the money that we have put into defense in the past 4 years has increased costs and overhead, and how bad is the overhead problem?

Mr. Stubbing. It is hard, Senator, to put a price tag on it. I think I said before you came in that of the growth, the real growth, in the last 5 years, which has been about $330 billion, about $200 billion of that growth has been in the hardware programs.

Do you want me to stab at a guess as to how much is going into the nonproductive? Probably, $50 to $100 billion of it seems to be going into that. You have fingered, in my mind, that the incentives are not just defense incentives. The managers, as Dr. Luttwak has mentioned many times, have all the wrong motivations to do the things that need to be done in defense. The contractor types have also the same bad incentives working for them. They realize they can buy in on a contract, and once they win the initial award, they have a program in many cases that will last them for 15, 20, 25 years. And once you get in the door on big contracts, you are normally going to have a lot of time to play with your labor and overhead costs, to take good care of what is happening.

Back in 1980, before I left Government, Coopers and Librand did a study for Defense. They were worried about the fact that the contractors were not getting recognition for the higher cost of run materials they were experiencing. Well, that is correct; we were not catching the anticipated increases in raw materials. But the thing I found devastating was as these raw materials, were going up at a huge amount—20, 25, 30 percent at a time—the direct labor and overhead of these same contractors were going up exactly the same, which says that any time you get an opportunity, it is OK to jack the price—and "Uncle" will pay the tab.

You can see strange things in the growth in the last 4 years, there have been—and unit costs are just an indicator of the things that you can look at—I mentioned earlier the F-16. It is a hot production line, same airplane. Ten million dollar unit cost in 1981 then in 1982, it jumps to $16 million—a 60-percent increase in unit cost. That is not a cost of the airplane. I do not know what it is all about. I can just point to the fact that the contractor does very well.

That has happened on innumerable major contract programs. Those are the ones, unfortunately, or fortunately, we can see. One of the great problems is this "soft underbelly" as I like to think of it, the two-thirds that you can hardly see, because it is a multitude of less-visible programs that go on within defense. And we know we do not compete enough; we know we are throwing away a lot of valuable funds on non-essential things. So we get a lot more input than we get output from it.

MORE THAN ENOUGH ROOM TO ABSORB FREEZE

Senator GRASSLEY. I think that argues that there is more than enough room to absorb a freeze. Would you agree?

Mr. STUBBING. Yes, sir.

Senator GRASSLEY. Mr. Chairman, I think we have learned from the testimony of our panel today about the structural problems, as they have outlined. We have learned much from that.

I would agree that a 3-year budget is desirable for planning, but I just wonder if it is really possible. I would argue that there is no rational argument to be made against making the first year of that a budget freeze. In fact, I think today's testimony supports that. Before we make a decision on the defense number, we should await the gathering of the information that you and Mr. Chiles have requested on overhead and standard labor hours. If these numbers are anything like what I have collected already, I believe we will have the ultimate rationale for a freeze of defense budget authority.

I have no further questions.

Chairman DOMENICI. I am sure that Senator Johnston has some additional questions—excuse me. Senator Sasser?

Senator SASSER. Let me just ask two or three questions.

Mr. Stubbing, you made that point that a combination of the United States and NATO together have outspent the Warsaw Pact nations for the past 15 years, yet they continue to outproduce us with regard to various military hardware, principally tanks and tactical fighter aircraft.

Those of us who have seen the civilian Soviet economy, it looks terribly inefficient, shabby, and what they produce in the civilian economy is of extremely poor quality. Now, we are told that they have got two economies operating there, one, a civilian economy and another, a military economy. That is a little hard for me to fully comprehend, because it looks like you would be running both of those lines with the same general pool of people.

But to get back to the question, how do they outproduce us if we have been spending more over a period of a decade and a half?

Mr. **Stubbing**. Well, that is the $64 question. I think in the general sense, from what I have read and understand that the Soviet military is kind of a favorite son: in the Soviet pecking order, and so they are probably a bit more efficient than the rest of the economy.

I also know that the Soviets are by no means a highly efficient operation—even in their defense sector. And I think we have to look at our own selves and our own program and wonder why it is that we can put so much money in and get so little out. And that is what is happening, and that is the clear fact, and we have talked about it this morning. And until we change the incentives both in the executive branch and Congress—and part of the answer to Senator Johnston's question, that the Executive and Congress have to work together; they have to agree they are going to try and make some of these major improvements happen.

DEFENSE COMPANIES ARE BEING CARRIED

It is clear that we are just to a large degree carrying an awful lot of companies and willing to pay the price to keep people employed, and it is a bit of a dole, frankly, that we are into, and that is a serious problem, and there are no incentives to correct that. In fact, the odd incentives are if we do not produce more, which is your question of production, that is OK, too. It is not important to produce more because we might run out of production lines sooner, and then we would not have any work left. That is a problem.

Dr. **Luttwak**. If I may add something here—if one examines the United States plus NATO and Japan procurement accounts and one starts looking at weapon-production rates——

Senator **Sasser**. Did you say Japan and the United States?

Dr. **Luttwak**. Yes. The usual comparison is NATO, Japan plus United States, versus the Warsaw Pact. If one looks at weapon production figures rather than overall budget figures, what one discovers is that a lot of money is being spent to build the overhead. In the Japanese case, the ground self-defense forces are buying a new tank. When one looks at the total number of tanks produced, one realizes that the Japanese are in fact putting their money into developing a tank production infrastructure, while only buying tanks in sample numbers. We ourselves are producing items like the F-15 at the rate of 40 per year. Now, that is a production rate appropriate for cathedrals, not for fighter aircraft. If there is a war in Europe, one could lose 40 F-15's in the first 5 minutes of combat, just by post-alert attacks on the runways in the main operating bases.

SYSTEM PREFERS HYPER-ELABORATE SINGLE ITEM

In the current system, there is a preference for the hyper-elaborate single item. When an aircraft company comes along and offers a cheaper aircraft, it is dismissed on the grounds that it is not adequate.

In the Soviet case gold plating is not unknown but in general they go for adequacy rather than maximization.

Senator **SASSER**. In response to our elaborateness.

Dr. **LUTTWAK**. Yes, we go for hyper-elaboration of each single item, while they have tried to go for adequacy, then mass-producing the adequate system. But whenever a contractor offers an adequate system, the services now say, "No, we do not want it; we want the hyper-elaborate."

Senator **SASSER**. Well, that is what we did in World War II, is it not? Didn't we go for adequacy there?

Dr. **LUTTWAK**. Yes, sir.

Senator **SASSER**. I mean, our Sherman tank would not compete with the Germans, but we could produce tens of thousands of them——.

Dr. **LUTTWAK**. The Germans produced Tigers in sample numbers, and we mass-produced a greatly inferior, but marginally adequate Sherman, which defeated them.

Senator **SASSER**. We overwhelmed them with numbers, and now it has turned around, and we are going for the highly sophisticated weapons systems.

Dr. **LUTTWAK**. Yes. This is how a peacetime system, structured the way we now have it acts; it goes for elaboration in all the major and subsystem capabilities.

As for the Soviet economy, Senator, we have to be very careful about this question of the two Soviet economies, civilian and military. One could write a whole history of Europe in terms of visitors going to Russia, finding inefficiency and backwardness, and concluding that the Russian army is weak—and thus, underestimating the Russians, and as many now underestimate the Soviets.

Their shoes may be really awful, but let me tell you, their assault rifles are really very good. We are better at everything civilian but not in strategy, and that is one problem.

PEOPLE WILL BE NEEDED TO OPERATE EQUIPMENT

Chairman **DOMENICI**. Dr. Kaufmann, do you have any comment on that?

Dr. **KAUFMANN**. Yes, sir. I admire the rhetoric, also, but I think Congress would have to recognize that if they want larger numbers of tanks, aircraft, et cetera, they are going to have to get more people. You do not operate these tanks without people. While I agree with Dr. Luttwak that much of the explanation for the difference between the Soviet Union and the United States in the numbers is the difference in the qualitative characteristics of the systems—a MIG-21, for example, is a very different aircraft than an F-16—nonetheless, what we also have to face is that what the services—and with the best will and intention in the world—are concerned about is that, given the alleged superiority in numbers, they must produce very high-quality individual systems in order to get the kill ratios up in their favor. And I do not think one can just casually dismiss this attitude unless one is genuinely prepared not only to substitute additional tanks, or aircraft, or whatever, but also the people that are required to go with them. It is not that you just magically produce the additional equipment.

Chairman DOMENICI. But I think that would permit you to conclude, nonetheless, that the excessive number of military men and women and civilians are there for mobilization, which would require a completely different weapons development plan.

Dr. KAUFMANN. Frankly, Senator, without seeing Senator Rudman's figures, I am skeptical about the amount of excess that is actually there, and therefore, I am not at all sure that there is a free good that is lying there, waiting to be converted into military capability.

There has been a very determined effort on the part of all three services to minimize the number of people exposed to combat, and in the process of doing that, to provide those who are exposed to combat with more support. And that has not been done lightly, and I do not think offhand, one can dismiss this as simply fat, excess, or mobilization capability.

Chairman DOMENICI. That is why you did not say you were so sure you could answer that so quickly, and I appreciate your attitude.

Dr. KAUFMANN. Yes, sir.

Chairman DOMENICI. Senator Johnston.

QUESTION OF STRATEGIC DEFENSE INITIATIVE

Senator JOHNSTON. Thank you, Mr. Chairman.

Gentlemen, we have brushed lightly on the question of strategic defense initiative. I must say that what I know about that from having read and talked and had some of the top-secret briefings does not seem to match the rhetoric which we hear from the President and others—the latter seeming to indicate that there is a system ready to be built which has a fairly predictable course to run, if we will it, so the question gets to be yea or nay on SDI. And of course, I think that reality is totally different from that, and that is that we are thinking about a whole series of technologies, some of which are nonexistent or hoped for, others which are immature, and the deployment of which is totally in doubt and at question at this time—which does not mean to say that it is a good or a bad thing to pursue it aggressively, but it does mean to say, in my mind, that questions have yet to be formed, and not only are the answers not there.

But my real question to you is, first of all, do you agree with that, and second, if you believe, as I do, that we ought to pursue SDI, is there any magic in these funding levels, considering that we do not know what we built if we invented it—I mean, we go from $1.4 billion to $3.75 billion, and I think it is $25 billion over a period of 5 years.

What is there magic about that, how well-thought-out are those levels, how little can we give them and still believe in SDI? What are the risks in going to the higher figures? Do we just get married into a new military-industrial complex on those technologies which assumes a momentum of its own—which, if you do not like the example of the MX, Dr. Luttwak, maybe you will like the example of the B1—but would you respond to that, any or all of you?

PERCEPTION NOT WAY OF DOING DEFENSE PLANNING

Dr. **Kaufmann**. Why don't I start, in order to avert the flood. First, might I just say that the notion about perceptions is one of the most pernicious ones that has ever struck defense planning. It is simply an open invitation for every scoundrel to ask for—Dr. Johnson defined patriotism as the last refuge of scoundrels; I think perceptions could become the substitute—because anybody can define perceptions any old way he chooses, and then define budgets accordingly. I think it is just not a serious way of doing any kind of defense planning, and I think that applies particularly to the strategic defense initiative where, in effect, they are now letting contracts in order to find out what it is they should do with the resources that they are about to get.

The effort—which, after all, is many years old, and was——.

Senator **Johnston**. You mean the ABM effort?

Dr. **Kaufmann**. Well, I mean research into these various directed energy technologies has been going on for years. I witnessed, I believe it was General Keegan, in the midseventies, who said that the Soviets were making astonishing progress in this realm, and by publicizing that, in effect forced the Carter administration to increase the funding in lasers, railguns, and so on. So this has been going on for many years.

As yet, there is not anything very promising there. I think it makes sense to conduct a level of effort research program, and I think that Congress hit about the right number in fiscal 1985, at about $1.4 billion, with the bulk of those resources going to what we now have to call the more conventional antiballistic missile defense programs.

Senator **Johnston**. That is the final-phase program.

Dr. **Kaufmann**. Yes, sir, the low-adds.

Senator **Johnston**. Dr. Luttwak, would you respond to that?

PERCEPTIONS DEFINE PEOPLE'S EXPECTATIONS ABOUT POWER

Dr. **Luttwak**. Yes. Perceptions merely define expectations about power. They are an essential aspect of strategy. Bankers discount future money—you go to a bank and you say, "I am going to have $100 million in 25 years' time." He says, "Well, that ain't worth very much today." In the world of international politics on the other hand, today's power is discounted and, perceptions about future power dominate. That is what perceptions are about. Strategy is not like commerce where one closes at the end of a fiscal year, or at the end of the day, one puts one's money in the bank. In strategy, all the money is at stake all of the time; there is no end to it. Therefore, the future dominates the present, and that is what perceptions refer to.

Now, on SDI, judging by the reactions, there seem to be three different SDI's. One SDI is the President's original SDI designed to provide an "astrodome" over the United States to protect us against all nuclear weapons. We know that is not possible.

The second SDI is the SDI of the analytical community by and large, exemplified by very eminent people like Professor Kaufmann, and by our foreign-policy elite in general, which ridicules SDI as a star wars fantasy. We go from the astrodome to zero—just talk about directed-energy weapons which will not work.

RUSSIANS TAKE SDI SERIOUSLY

And the third SDI is the SDI of the Russians. Soviet leaders have made dozens of statements (and now act according to those statements) showing that they take SDI very seriously. They are not all that impressed by our military forces. But they do take SDI very seriously because they have a historical memory. As they look back, and they can tell that the one thing that we excell in is to invent entirely new repertoires of technology.

On the specific question of this year's budget: Last year, I believe SDI recieved $1.4 billion; this year the request is for $3.7 billion, almost a threefold increase. It may well mean that money would be showered on anybody who has a white coat and a physics degree, or who knows somebody who has a physics degree.

But Senator, I understand you have been briefed on the details and therefore, one thing you do know, of course, is that directed-energy weapons are merely a small part of the overall program.

One cannot, however ridicule the program on the grounds that money is now being spent for research to discover where money should be spent. Well, that is precisely what must happen with truly new technology.

Senator **Johnston**. Well, I certainly do not ridicule the program. I take it very seriously.

Dr. **Luttwak**. No, you did not, sir. Professor Kaufmann did. He used those very words.

Senator **Johnston**. I just wonder what the right figure is.

Dr. **Kaufmann**. Let me be quite clear what I said. I said contracts are being let to tell people what research they should do. That is not to say that some of this research that has been going on for more than a decade is not worthwhile; I think it is. We need to understand this technology, if for no other reason than to know how to defeat it. One always needs to look into this kind of technology in order to improve the offense. And so, at a minimum, one makes that kind of an effort.

But this is not to say that one should step it up—I might also point out that, while Dr. Luttwak is continually making mock of some of these comments that are made, it is very difficult to get him ever to state any kind of numbers about any kind of program. I would really love to hear him advise the Senate Budget Committee on what levels they should try to aim for.

SDI PAYOFF IS TO DEVALUE BALLISTIC MISSILE QUESTION

Dr. **Luttwak**. Touche.

What is the payoff that we can expect from SDI? The payoff is to devalue the ballistic missile. It will not stop cruise missiles or manned aircraft. But long-range ballistic missiles with their trajectories high up in space, we should be able to devalue, by depriving them of their one great virtue, assured penetrability. We should dislike ballistic weapons on two grounds: First, the Soviet Union is ahead in ballistic weapons overall; it has a huge investment in them, much more than $3.7 billion, perhaps $60 billion——

Senator JOHNSTON. But on SDI?

Dr. LUTTWAK. If we succeed with SDI, in creating a set of weapons systems that make ballistic weapons look old-fashioned and which deprive them of assured penetrability, we will engender a welcome move from today's ballistic missile world to a cruise missile world. Ballistic weapons are reciprocally vulnerable and therefore put us in this hair-trigger situation; aerodynamic weapons on the other hand do not place us in the hair-trigger situation caused by the fact that ballistic weapons are vulnerable to other ballistic weapons. That is the big payoff of SDI.

Now, let me rise to Professor Kaufmann's challange: Last year, $1.4 billion was authorized. This year, the request if for $3.7 billion. That is really a huge increase. It would probably be very difficult to administer the money in a reasonable way. I would certainly favor a dramatic increase, but not quite as much as $3.7 billion. I would personally suggest something of the dimensions of $2.5 billion. That would be a huge cut from the request, but would still provide a generous amount. In developing their new technology one does not want a climate of stringency.

Senator JOHNSTON. Has anybody in academe analyzed these figures? I mean, that is sort of the way we do things. We say, well, we will give them a big increase, 2.5——

Chairman DOMENICI. But not as big as——

Senator JOHNSTON. Yes.

Dr. LUTTWAK. Well, one is dealing with thousands of different things under this heading of SDI. There is no one truth about it. But in general, what climate do you want to have in the research labs, in the university labs where this money is going to end up—I do not think one would want a climate of stringency but rather a situation in which we can explore whatever seems most promising at least during this early stage.

Senator JOHNSTON. Well, if we increased it, let us say, $2 billion, that is a dramatic increase—doesn't that get the right climate, perceptions, and all that?

Dr. LUTTWAK. Your opinion is at least as good as mine. But if one were to assume a bookkeeper's attitude, and deny funds because SDI seems most vague, remote, and uncertain, one would be ignoring the fact any really new technology is vague and uncertain. And our history has been one of underfunding brand new stuff, until the Russians popped up with their own prototype before we did. And then we tended to overreact. In this case, I would rather avoid that path and be fairly generous now, even though perhaps 3.7 is an exaggeration.

SDI CANNOT BE PUT INTO ARMS CONTROL

Senator **Johnston**. If I may ask another followup question on that, when we talk about putting SDI into arms control, can we really define SDI well enough to, if we wanted to, to control it——

Dr. **Luttwak**. No, sir.

Senator **Johnston** [continuing]. Since it is a whole ganglion of——

Dr. **Luttwak**. No. The mechanisms of arms control serve to limit weapons which can be identified and counted; large weapons of recognizably classic form, which do not move, or which take a long time to be built. The mechanisms of arms control verification do not work in dealing with weapons which are small, mobile, and not of classic form, and so on. SDI is research and scarcely visible at all.

So I think that it is possible to negotiate over SDI, as indeed one can negotiate about the nature of the Holy Ghost, but one cannot actually limit, not even on paper, let alone in substance, as you noted earlier.

Senator **Johnston**. Let me ask one more question of you, Dr. Luttwak. You indicate that there is this asymmetry between conventional forces, and therefore we need more nuclear. The Soviets, it seems obvious to me, cannot accept that thesis, and if they cannot, is not arms control doomed, really, before it starts?

Dr. **Luttwak**. They have always accepted the asymmetry. When we accepted numerical parity for nuclear weapons there was always been an implication of an actual or forthcoming quality advantage. If we ever did decline to real nuclear parity, with equal numbers and no quality advantage, nor a perceptual advantage, based on capabilities to come, then there would be no basis for an overall military balance. While their comparative advantage is in mass production and in putting young men in uniform, our comparative advantage is in technology. If we accept technological parity along with numerical parity, we lose.

WEAPONS WITH HIGH-KILL RATIOS NEEDED

Let me comment on the question of support and Senator Rudman's proposal. The Soviet Union has, let us say, 193 divisions on its books. It gets them, first of all, by keeping two-thirds of them in reserve. Second, the Soviet Union obtains all its many divisions by having a much lower support-to-combat ratio. And Professor Kaufmann has pointed out that our services have tried to obtain for kill multipliers, by means of very high-quality individual weapons intended to engage multiple targets. That puts us in a vicious circle. First, we note that they are superior numerically; then we decide to acquire, really high-quality weapons; then we start investing in those weapons, and we discover that they are much more expensive than we thought; so we obtain few numbers. And then we discover that our numerical inferiority has become much worse. Then we go back yet again, trying to get even clearer quality advantages, to give us even more fantastic kill ratios.

Now, experience in the Middle East wars, which happen to be real, as opposed to the wars that we plan for shows that the best possible kill ratio obtainable for tanks, for example, is roughly 3 to 1. In air to air, it is much more; it could be even 10 to 1.

Hence, there is no escape. Either we match numbers to some degree—and I support Senator Rudman's proposal—or we have to continue to rely on the nuclear offset, which means that we have to continue to innovate, which means that we are responsible for the arms race, in effect. But that is simply the natural consequence of wanting to be a superpower without making the sacrifices appropriate to superpower, that is all.

NUMERICAL ADVANTAGES OVERSTATED

Dr. **KAUFMANN**. Can I just disagree with that analysis, or at least say that there is an alternative that does not require either this restructuring, which may be a function of at least a decade, as I think some of the Senators have pointed out, or a vast increase in numbers.

One of the things that would most illuminate this kind of debate is if one of the bodies of the Senate would actually look at the threat and look at it, not through the eyes of DIA, but really look at the data and find out what is there, because I think one of the most pernicious problems that we always face in defense planning is threat inflation, and we face it particularly with respect to the conventional forces, where the numerical advantages that are alleged for the Soviet Union and, say, the Warsaw Pact in general are mostly wildly overstated.

Senator **JOHNSTON**. By the way, I understand that Warsaw Pact and NATO forces collectively are about even in numbers. Is that correct or not?

Dr. **KAUFMANN**. Again, it depends on which particular contingency you are looking at. As far as the actually deployed forces are concerned, there is alleged to be a slight margin of superiority on the side of the pact. But remember, that entails counting Polish forces, yet I am quite confident the Soviet Union does not know which way they might go. Similarly, it involves counting Czechoslovak forces and even East German forces. They constitute over one-third of what is usually considered the main threat to Central Europe, 31 divisions. They are treated as though they were identical with Soviet forces, and I think one really needs to look at that among many other things.

Senator **JOHNSTON**. Thank you, Mr. Chairman.

Chairman **DOMENICI**. I think it is good that, in this 2½ hours, the Holy Ghost was mentioned. We surely will define the Holy Ghost and need its inspiration. But we thank you very much.

Actually, I am sorry that a lot more Senators were not here to hear the testimony. It is enlightening and very helpful. We have a very difficult job to do, and I think we are trying very diligently to prepare ourselves to do it. You have been very helpful. We would appreciate your efforts to respond to the question that we will put to you with reference to the Rudman manpower reduction proposal.

We stand in recess until this afternoon.

[Whereupon, at 12:30 p.m., the committee was adjourned.]

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"Toward Reform"

[Extract From, *The Pentagon and the Art of War NY, Simon & Schuster, 1985.*]

> *"Although most history books glorify our military accomplishments, a closer examination reveals a disconcerting pattern: unpreparedness at the start of a war; initial failures; reorganizing while fighting; cranking up our industrial base; and ultimately prevailing by wearing down the enemy—by being bigger, not smarter."*
>
> GENERAL DAVID C. JONES
> Chairman of the Joint Chiefs of Staff,
> 1978–1982[1]

☆

This honest appraisal, seemingly so harsh, is actually overoptimistic in leaving us with the prospect of ultimate victory, if achieved only slowly and by sheer material superiority. But that method can work only in a conventional war against regular, front-holding forces that we can outgun. It will not defeat a guerrilla enemy, for example: when confronted by superior firepower, guerrillas will simply refuse to assemble in conveniently targetable formations, and the futility of mass-producing firepower against a greatly dispersed enemy was amply demonstrated in Vietnam. Nor can the method contend with the lesser combat that terrorism and lawless states send our way: the sequence of initial failure, hurried reorganization, and brute-force attack becomes absurd when the task is a swift commando raid or a one-night *coup de main*, such as the seizure of Grenada should have been.

But in fact, the reorganize-and-outproduce method will not work even for a large war against regular forces—if they happen to be Soviet. It did defeat Germans already worn down by others before American forces ever had to fight them in earnest, and it was even more successful against the Japanese, brave and skilled but poor in industry and poorer still in raw materials. The Soviet Union is another matter altogether; it is not so easily outproduced, it is impervious to blockade, and it has nuclear weapons to cut short any belated wartime reconstruction of American military power.

Our goal, of course, is to avoid a Soviet–American war rather than to fight it well. But it is precisely by operational competence and sufficient strength that we can extinguish the fatal optimism necessary for aggression—and with the present unreformed system, our competence must remain in doubt, while the upkeep of sufficient strength is altogether more costly than it should be.

In the Second World War, early defeats were eventually overtaken by large victories. But today, we would be tempted to redeem initial defeats by nuclear escalation, while the Soviet Union in turn would use nuclear weapons to interrupt our slow sequence of military reorganization and industrial mobilization. In films, TV spectaculars, and novels, and in the speech of the devotees and propagandists of arms control, nuclear war is usually depicted as the outcome of computer breakdowns, radar misreadings, or other such fatal technical errors in the tense circumstances of a diplomatic crisis. But as soon as one begins to examine the actual procedures for the control of the bomber forces and ballistic missiles, one discovers that technical breakdowns will quite likely prevent fully intended nuclear attacks, not cause accidental ones.

Contrary to the standard dramatic scenario, there are no automatic attack procedures that have to be called off in time while the doomsday clock ticks away. On the contrary, if duly authorized orders, repeated and confirmed, do not get through, no weapons are released at all, and the attack sequence simply stops: the entire "fail-safe" imagery is the exact opposite of the truth. The great danger is not a melodramatic leap from peace to nuclear war by mere accident, but rather the deliberate use of nuclear weapons in desperate reaction to nonnuclear warfare gone wrong. The United States could not avenge Pearl Harbor on the next day by nuclear strikes against the Japanese fleet steaming back across the Pacific, nor could it punish Rommel's army with nuclear weapons for its victory at the Kasserine Pass, where the new American forces lost their first battle against the Germans. Today, however, delusions of adequacy might propel us into a major debacle, some "Desert

One" on a large scale, and then the shock of defeat and the fear of its results might tempt us to redeem failure by resorting to nuclear weapons. Thus the reluctance of Congress, the White House, and defense politicians to break the amiable conspiracy that so easily forgives our combat failures and tolerates the strategic vacuum at the core of our military policy not only harms our military reputation and misuses our wealth, but also leaves us open to nuclear danger—by our own doing.

As we have seen, the fundamental problems are all structural: it is the organization that must be changed, not the culture; there is nothing in our political system that precludes sound strategy, as there is nothing in the spirit of young Americans that prohibits military success. In the most obscure fighting of Vietnam—the mere routine that remained unreported alongside the drug scandals and the "fragging" incidents—American soldiers set out on patrol day after day, through jungle and high grass made for ambushes and man-traps, across swamps infested with blood-sucking leeches, with water up to their chests and soft mud under their feet. Meanwhile the airmen flew their sorties, sometimes twice a day, risking death or foul imprisonment each time, and the sailors aboard ship carried out a routine of backbreaking labor, interrupted only by sleep and numbing boredom. It was not the fault of those young men but of the command structure above them that the patrols and the sweeps, the air strikes and the warships served ritualistic tactics, vacuous operational methods, and strategies of defeat.

And in the small combat on Grenada, we saw how the Rangers fought hard and did not lack brave officers to lead them—when totally inexcusable planning had them parachute directly in front of some of the very few antiaircraft guns on the island, as part of an operation that was fundamentally wrong in concept. We do not face the impossible task of remaking cowards and time-servers into effective fighting men. The challenge is rather to redeem abundant valor and dedication by reorganizing our military establishment.

Absolutely the first priority is to provide a central military staff that can present the true choices of national military strategy for the policy decisions of the President and Secretary of Defense: how much to spend on nuclear weapons and which ones, according to the expressed purposes of the civilian authority; how much to spend on "readiness" as opposed to the building up of the forces, according to the best estimates of the risk of *imminent* conflict; which forces to increase and which to reduce among aircraft carriers and armored divisions, fighter squadrons and submarines, according to the most prudent assessment of what threats will need to be averted or defeated. At present, by an omission that is so huge and amazing that it remains unsuspected by the citizenry at large, there is no such source of *national* military advice.

The organization of the Joint Chiefs of Staff, which is supposed to provide the brain for the military body, certainly plays no such role. And how could it? Only the Chairman and his personal secretary have a national responsibility. Everyone else, from the chiefs of staff of each service who come in for their weekly meetings down to every officer serving with the Joint Staff, can only represent the interests of his own service. Every attempt to obtain strategic advice from the Joint Chiefs yields only all-service demands for more money for everything, with no order of priorities and no real choices offered. Each new Secretary of Defense soon learns that it is futile to expect any considered strategic judgment from the Joint Chiefs and their Joint Staff; no matter what the question, the answer is always the same: the lowest common denominator on which all the services can agree.

In the absence of expert advice, we have seen each successive administration fail in the business of strategy—yielding a United States twice as rich as the Soviet Union but much less strong. Only the manner of the failure has changed. In the 1960s, under Robert S. McNamara, we witnessed the wholesale substitution of civilian mathematical analysis for military expertise. The new breed of the "systems analysts" introduced new standards of intellectual discipline and greatly improved bookkeeping methods, but also a trained incapacity to understand the most important aspects of military power, which happen to be nonmeasurable. Because morale is nonmeasurable it was ignored, in large and small ways, with disastrous effects. We have seen how the pursuit of business-type efficiency in the placement of each soldier destroys the cohesion that makes fighting units effective; we may recall how the *Pueblo* was left virtually disarmed when it encountered the North Koreans.* Because tactics, the operational art of war, and strategy itself are not reducible to precise numbers, money was allocated to forces and single weapons according to "firepower" scores, computer simulations, and mathematical studies—all of which maximized efficiency, but often at the expense of combat effectiveness.

An even greater defect of the McNamara approach to military decisions was its businesslike "linear" logic, which is right for commerce or engineering but almost always fails in the realm of strategy. Because its essence is the clash of antagonistic and outmaneuvering wills, strategy usually proceeds by paradox rather than conventional "linear" logic. That much is clear even from the most shopworn of Latin tags: *si vis pacem, para bellum* (if you want peace, prepare for war), whose business equivalent would be on the orders of "if you want sales, add to your purchasing staff," or some other, equally absurd advice. Where paradox rules, straightforward linear logic is self-defeating, sometimes quite literally. Let a general choose the best path for his advance, the shortest and best-roaded, and it then becomes the worst of all paths, because the enemy will await him there in greatest strength. Let us build ships to match the Soviet Navy and we will be caught in a losing game, because it takes an entire task force to cope with a few submarines; but if we build advanced "stealth" bombers instead, thus forcing the Soviet Union to re-equip its air defenses, we would then see the naval balance shifting in our favor, as the low-priority Soviet navy is increasingly starved of funds for the high-priority air-defense forces. Let us place most of our forces to defend the most valuable central perimeter, and we will see them become the least employed, as the adversary maneuvers to circumvent them left and right. Let us choose carefully the case in which we might intervene, doing so only when "really vital" interests are at stake, and then we will find that the contending forces will strike instead at all the other interests that individually do not quite deserve our protection—and then over time, after many abandonments, each of them seemingly prudent, we will discover that the loss of many less-than-vital interests here and there, large and small, has made it impossible, or quite pointless, to defend that which had previously been deemed worthy of protection.

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* Strong armament was judged as not "cost-effective" for ships of that kind.

Linear logic is all very well in commerce or engineering, where there is lively opposition, to be sure, but no open-ended scope for maneuver: a competitor beaten in the marketplace will not bomb our factory instead, and the river duly bridged will not deliberately carve out a new course. But such reactions are merely normal in strategy. Military men are not trained in paradoxical thinking, but they do not have to be. Unlike the business-school expert, who searches for optimal solutions in the abstract and then presents them with all the authority of charts and computer printouts, even the most ordinary military mind can recall the existence of a maneuvering antagonist now and then, and will therefore seek robust solutions rather than "best" solutions—those, in other words, which are *not* optimal but can remain adequate even when the enemy reacts to outmaneuver the first approach.

Under McNamara and those of his successors who chose his path, the substitute for military expertise absent at the top was thus error made systematic—error that still lives on in the "optimized" designs of some weapons that remain in service, each very efficient and thus vulnerable. Nowadays, by contrast, with Caspar Weinberger as the Secretary of Defense, the interference of civilians in military decisions has greatly diminished, but nothing has been put in its place, leaving a vacuum where strategy is supposed to be. Aside from the great upsurge in the naval forces (which reflects no strategy at all but only the odd politics that yields a consensus on naval unilateralism out of the clash of budget-cutting isolationists and Alliance-minded activists), we see the loot shared out according to inherited priorities, with scant regard to all the vast changes that have so greatly diminished the value of some forces, while increasing the value of others.

So far we have addressed strategy as meaning *national* military strategy, which is supposed to guide our spending decisions to build the future forces required by policy, as well as to maintain the forces we choose to keep. At that level, the present absence of meaningful military advice results in the waste of our resources—not the petty waste of carelessness, but the huge and systematic waste inevitable when powerful service fiefdoms share out the money without any coherent overall design set at the national level.

The same fatal defect, however, is just as manifest at the lower levels of strategy, which are supposed to guide the geographic deployment of the forces we actually have, and their planned use in combat, large and small. As we have seen, the Iran rescue attempt exemplified in pure form what we can expect when the "joint" system goes to war: i.e., the willful disregard of the most basic principles of war for the sake of bureaucratic harmony among competing services. The two "unified" commands in charge of Vietnam—the Pacific Command in Honolulu and Saigon's MACV below it—manifested the same disease in much more varied form over a period of years, and so did the Atlantic Command in planning the seizure of Grenada. No better result can be expected when plans are made and forces are commanded by a committee of bureaucracies with a shifting cast of characters who happen to be serving their joint-command "tour" at that time and in that place—each wholly dependent on his own service alone for his own career advancement.

Therefore it is not enough to obtain budgetary advice from some selected group of superofficers, somehow freed of any service bias.

There really is no substitute for a new cadre of "national defense officers" able to carry out three essential functions now left to ineffectual gatherings of service representatives:

—The planning of large and small combat operations, immediate and contingent, when more than one service is involved—i.e., virtually all military planning, from a commando raid tomorrow, to plans for the defense of Europe that we hope will never be tested;

—The higher command of the forces of diverse services that must cooperate in any theater or expeditionary setting, to replace the present "unified" and "specified" commands with the genuine article: unitary commands, headed by officers who share the same all-service training and the same higher loyalty;

—The supply of professional military advice to assist the Secretary of Defense and the President in their policy and budget decisions on the distribution of the forces in different regions of the world and for different purposes; the distribution of the money among different kinds of forces—nuclear and not, naval and land, ground and air, and so on—in much finer detail; and, finally, the distribution of spending over time, between immediate "readiness" (and for which forces), force-building for the next five to ten years (it takes that long to build ships, aircraft, and even tanks), and research-and-development for entirely new forces.

Where are such national-minded officers to be found? Obviously we do not have them now, either by background or by training. (Officers sent to the Joint Staff or to one of the "unified" commands do not even receive a "joint" course before taking up their duties.) And it is just as obvious that we cannot possibly create "national-defense officers" from scratch, in a new superservice without any forces of its own, which would take in young cadets and make fairly senior officers out of them through a sequence of school courses and office jobs. To place such rarefied souls above regular officers who have served in the forces and risen to command them, perhaps with some actual combat experience, would be an invitation to mutiny in a real crisis, and would certainly produce useless advice, and worse plans.

Only one other solution remains, and that is to recruit the new body of national-defense officers from the services themselves. Army, Navy, Marine Corps, and Air Force officers of middle-high rank (say colonel/Navy captain) who have already filled staff and command positions and who have been selected for early promotion by their own service would be given the opportunity to start a new career as national-defense officers—if they pass stiff entrance examinations and survive demanding interviews.

Once selected for the new cadre and formally discharged from their original service, these national-defense officers would familiarize themselves with the forces, tactics, doctrine, jargon, and procedures of every other service before attending a national-defense training school. There they would receive a standard "staff-and-command" education in the new format of national rather than one-service operations. Staff assignments would follow, and then command positions at a higher and higher level, over larger and larger groups of multiservice forces. In between, national-defense officers would have working tours with all services other than the one they came from, and before selection for the very highest ranks, another educational interval might be appropriate, in a suitably broad-gauged higher-defense college. Thus young colonels/Navy captains might have a second career before retirement, mainly as flag-rank officers.

The obvious attraction of the new career would be its monopoly over the higher direction of our national defense. The geographic commands for Europe, the Pacific, the Atlantic, Latin America (Southern Command), and the so-called Central Command—whose envisaged operational area is the Persian Gulf—as well as the "specified" strategic-nuclear commands, both offensive and defensive, would all be headed by senior "national-defense officers," with their more junior counterparts in charge of the usual staff departments of each command.

Even more senior national-defense officers would be in charge of the main departments of a new National Defense Staff, at the apex of the entire military structure, whose task would be to provide professional military advice to the Secretary of Defense and the President, as the Joint Chiefs organization is now supposed to do.

The head of the National Defense Staff would be the nation's chief military officer: not a commander-in-chief, of course, but rather a chief adviser, as the Chairman of the Joint Chiefs now is—except that instead of quite suddenly having to think in multiservice terms after a lifetime devoted to one service, that chief adviser will have had many years of experience as a national-defense officer.* Under its Director or chief officer (whose status might be recognized by a unique five-star rank), the National Defense Staff would be managed by three-star department chiefs, with less senior national-defense officers to provide the working staff. One-service officers would also be present, but in the capacity of professional experts rather than representatives of service interests. (This distinction would have to be actively preserved.)

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* If the entire radical reform is carried out, it may also be possible to rename the post: "chairman" has weak, commercial connotations; the British, who are good at that sort of thing, have a "Director" in charge of their central defense staff.

Having commanded battalions and brigades, warships and air squadrons before they ever started their new career, and having shouldered higher staff and command responsibilities ever since, the new officers should not be lacking in prestige. Indeed, they should gain added respect because of their freedom from the bureaucratic interests of any one service. A residual loyalty to their service of origin is only human and decent, and fully to be expected among the new officers; but such ties would be merely sentimental, because all promotion would be exclusively within the national-defense cadre itself. No longer would we witness the sorry spectacle of officers on 'joint'' duty torn between the career imperative of asserting narrow service interests and their own personal sense of what is best for the nation.

In the two-track system here envisaged, officers who choose to remain within their own service could still have a fully satisfying career reaching up to the highest ranks—except that if they remained one-service officers, they could not aspire to the higher direction of the armed forces, in which they now share if they serve tours in one of the unified or specified commands, or in the Joint Chiefs of Staff organization. As it is, the four-star chief officer of each service—i.e., the Chiefs of Staff of the Army and Air Force, the Chief of Naval Operations, and the Commandant of the Marine Corps—have no operational responsibilities. They are *not* in the present chain of command which runs from the Secretary of Defense to the appropriate unified or specified commands. The most senior officers of each service are therefore administrators, inspectors, and moral leaders—not war planners or commanders. Moreover, their force-building decisions and budget priorities are already supposed to be guided by national priorities set by the Secretary of Defense.

Under the proposed reform, the distinction already in place between operational and administrative responsibilities would be extended just a little; one-service officers in command positions would continue to have both operational and administrative powers (both are, of course, essential to leadership), but not beyond the level where specific military expertise dominates. It goes without saying that warships should be commanded by sailors, divisions by soldiers, and air wings by airmen rather than by national-defense officers who may or may not have originated in the relevant service. It is just as clear, however, that the operational commanders of the forces in an entire theater—even if of only one service; for example, the naval forces in the Mediterranean or the air forces in the Pacific—need expertise in dealing with other services, and indeed other countries, even more than they need one-service expertise, of which they should have a great deal anyway in their staffs.

It therefore seems reasonable to establish a cut-off point at the three-star level: one-service officers would still control substantial forces, up to the divisions and corps of the Army, the numbered fleets of the Navy, and the numbered "air forces" of the Air Force; above that level, however, command positions would be reserved for the new cadre of national-defense officers. The one-service officers in charge of the Pacific Fleet or the U.S. Army, Europe, would remain in place as administrators and moral leaders, but the forces contained within those frameworks would be controlled by the appropriate regional commands, staffed and headed by national-defense officers.

The geographic commands that are now "unified"—for Europe, the Pacific, the Atlantic, Latin America (Southern Command), the home forces (Readiness Command), and the Middle East (Central Command)—might be rationalized, once they are taken over by national-defense officers with no service prerogatives to protect. But no change is immediately required by the reform. However, for operations of war smaller than the imaginary all-out, worldwide conflict for which the present "unified" commands are scaled—that is, for the fighting that actually happens, ranging all the way from Vietnam to Grenada—the appropriate geographic command would form a separate headquarters sized for the job, staffed and led by national-defense officers. Thus a craft approach to war could be restored, with operational coherence and a sharp sense of the milieu, terrain, and enemy no longer hopelessly dissipated in overlarge headquarters colonized by competing services.

The military profession is conservative by nature, and officers are entitled to be cautious in the face of a reform that would impose drastic changes in their chosen careers. But over time, officers would get used to the idea that the military profession can offer two alternative paths of equal merit. One would offer all the rewards of the kinship of men in the day-to-day life of the services; the other would offer the satisfaction of working within the stream of national policy. One would attract the "regimental" type of officer and the other his "staff officer" counterpart; one would be able to claim all the traditions of military service, while the other would offer the challenge of the new. One thing above all would facilitate the reform: whatever they may now say in public, while still being inmates in their one-service prisons of ideas, most officers of reflective disposition know that the present system is fundamentally defective. If nothing else, the deep-felt patriotism common in the officer corps should prevail over the narrower loyalty evoked by the services.

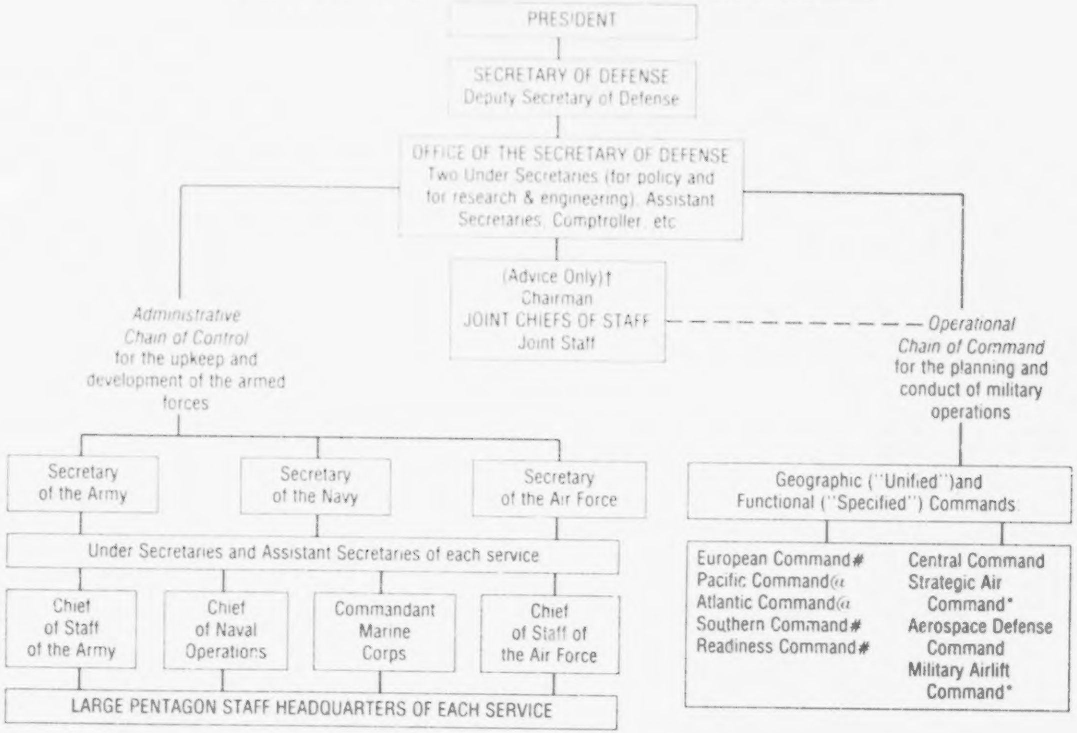
Actually, we already have quite a few self-made "national-defense officers." They still wear one-service uniforms and are not officially recognized as such, but everyone knows who they are. Having freed themselves from service parochialism and acquired wider interests, these officers strive to bridge the gap between the services, taking much more than their share of the "joint" assignments—even though their promotion suffers in the process. One does not know whether such men deserve praise or blame: if it were not for them, the present system might have been given up long ago as totally unworkable. The creation of the national-defense career would recognize and legitimize their professional orientation, and also extend its scope.

Thus the reform here envisaged would change the human substance, instead of merely rearranging the organizational boxes. The belief that the true workings of complicated institutions can be seriously improved by tinkering with their formal structure is one more symptom of the "administrator's delusion"; but after a great many new letterheads have been reprinted and many new signs provided for office doors, one usually discovers that the real problems persist. In this case the real problem is that the rival service fiefdoms dominate the weak and sterile "joint" structures that are supposed to provide them with coherent direction at the national level; and the real solution is to subordinate the services to a selection of their best men, formed into a cohesive cadre.

Chart 8 illustrates the present organization of the Defense Department. Because of its substantive content, the proposed reform, as shown in Chart 9, would leave the formal organization of the Defense Department largely unchanged. There would be no drastic changes in structure, except for the long-overdue consolidation of some functional commands of the Navy and Air Force, which are now separated purely because there are no "transservice" military officers available to provide the higher command of both. The job of delivering people and

Chart I

The Present Organization of the Department of Defense


PRESIDENT
SECRETARY OF DEFENSE
Deputy Secretary of Defense
OFFICE OF THE SECRETARY OF DEFENSE
Two Under Secretaries (for policy and for research & engineering). Assistant Secretaries, Comptroller, etc
(Advice Only)†
Chairman
JOINT CHIEFS OF STAFF
Joint Staff
Administrative Chain of Control for the upkeep and development of the armed forces
Operational Chain of Command for the planning and conduct of military operations
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Under Secretaries and Assistant Secretaries of each service
Chief of Staff of the Army
Chief of Naval Operations
Commandant Marine Corps
Chief of Staff of the Air Force
LARGE PENTAGON STAFF HEADQUARTERS OF EACH SERVICE
Geographic ("Unified")and Functional ("Specified") Commands
European Command#
Pacific Command@
Atlantic Command@
Southern Command#
Readiness Command#
Central Command
Strategic Air Command*
Aerospace Defense Command
Military Airlift Command*

Command "owned" by the Army, always headed by an Army officer on "joint" duty

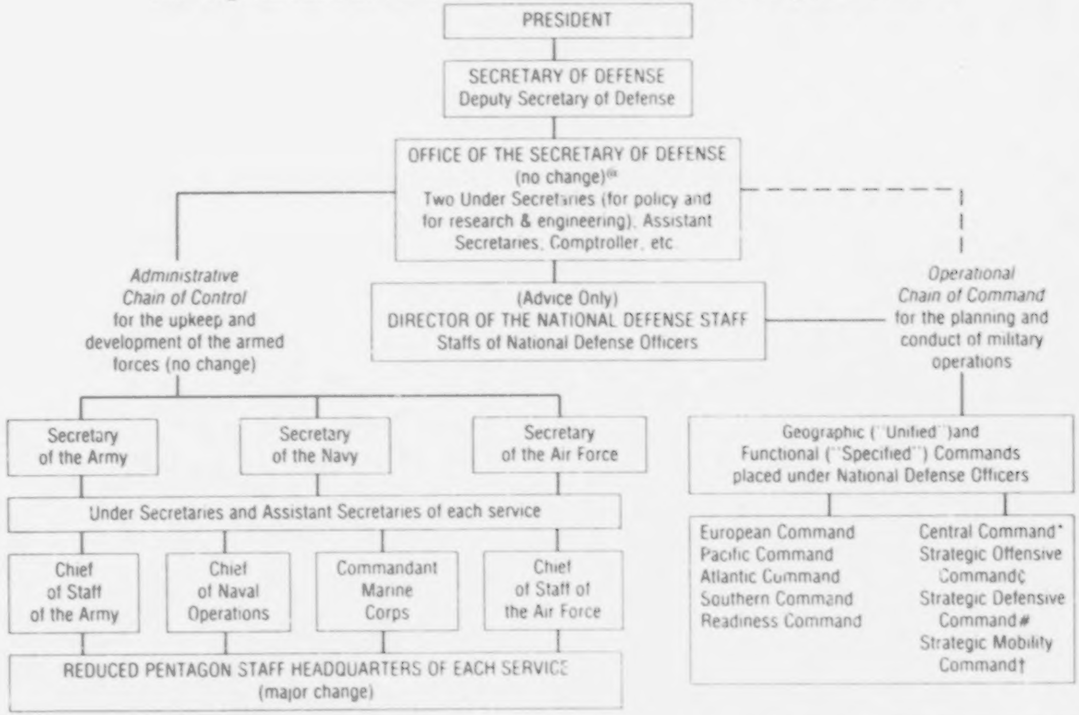
@ Command "owned" by the Navy, always headed by a Navy officer on "joint" duty

* "Specified" Command of the Air Force.

† The Secretary of Defense transmits orders to the "Unified" and "Specified" Commands by way of the Joint Chiefs organization.

Chart II

The Organization of the Department of Defense: the Proposed Reform


PRESIDENT
SECRETARY OF DEFENSE
Deputy Secretary of Defense
OFFICE OF THE SECRETARY OF DEFENSE
(no change)@
Two Under Secretaries (for policy and for research & engineering). Assistant Secretaries. Comptroller, etc
Administrative
Chain of Control
for the upkeep and development of the armed forces (no change)
(Advice Only)
DIRECTOR OF THE NATIONAL DEFENSE STAFF
Staffs of National Defense Officers
Operational
Chain of Command
for the planning and conduct of military operations
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Under Secretaries and Assistant Secretaries of each service
Chief of Staff of the Army
Chief of Naval Operations
Commandant Marine Corps
Chief of Staff of the Air Force
REDUCED PENTAGON STAFF HEADQUARTERS OF EACH SERVICE
(major change)
Geographic ("Unified")and Functional ("Specified") Commands placed under National Defense Officers
European Command
Pacific Command
Atlantic Command
Southern Command
Readiness Command
Central Command*
Strategic Offensive Command¢
Strategic Defensive Command#
Strategic Mobility Command†

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* The Central Command responsible for the Middle East, but with its force mostly within the US, could be abolished, leaving only a rapid-deployment headquarters within the home-forces "Readiness Command."

¢ Comprising the present Strategic Air Command of the Air Force and the strategic missile forces of the Navy

# Comprising the present and future homeland defense forces, including any eventual space-based forces

† Comprising the airlift forces of the Air Force and the Navy Sealift forces

@ The Secretary of Defense retains the option of direct communication goods overseas, presently divided between the Military Airlift Command of the Air Force and the Navy's Military Sealift Command, with the former a nominally joint "specified" command and the latter not, is clearly irrational. (Only the operational control of the forces would be affected; the services would remain responsible for the upkeep, development, and direct command of the ships and aircraft themselves.) Similarly, the divided command of long-range nuclear weapons—between the bombers and ballistic missiles which come under the "specified" Strategic Air Command of the Air Force and the sea-based missiles which the Navy keeps under its geographic Fleet commands—is also irrational: all those forces are aimed at the same targets. The fact that service boundaries cut across the strategic-nuclear forces of the nation is a source of needless complications. Even these minor changes are not actually required by the reform here envisaged; but once the new cadre of national-defense officers is in place, the long-overdue consolidation will no doubt follow.

More important, the constitutional relationship and real-life divisions of power and responsibility between the civilian authority and military officers would not be changed in any way. The Secretary of Defense remains the executive official of the President, to assert civilian control over the entire military structure by two complementary lines of authority—the operational chain of command, direct to the geographic and functional commanders, and the administrative chain of control, which reaches into each service by way of its civilian Secretary and chief military officer.

Only time will tell how successful the new cadre of national-defense officers will be in making plans for the file cabinets of contingency planning and for immediate use. One may reasonably hope, however, that the principle of simplicity will be restored to our operations of war, once it is no longer necessary to satisfy the claims of every service. Only the experience of actual combat will show how well national-defense officers can command multiservice forces in groupings large and small, but at least the principle of the unity of command will no longer be systematically violated for the sake of bureaucratic harmony, with the atrocity of multiple commanders in one spot and jurisdictions split arbitrarily along service lines.

One thing is certain: national-defense officers will be much better equipped from the start to provide useful advice to the Secretary of Defense and his civilian officials—not to impose policy, of course, but rather to offer clear-cut options for civilian decisions, in place of the diluted compromises of today, which are often unrealistic and which always violate the essential nature of strategy. Only rarely will a compromise coincide with one of the discrete options that are valid in strategy. In war, one may win by attacking to the left or the right—but never by diluting one's strength across the front. And in peacetime also, choices just as clear must be made.

When the Secretary of Defense begins to receive coherent proposals and genuine choices from the military professionals of the National Defense Staff, he will have less need to rely on "systems analysts" and assorted civilian experts for military advice. And once a National Defense Staff can subject the services to the discipline of a coherent strategy, the Secretary of Defense will also have less need to rely on civilian officials in order to monitor and review service decisions. In due course, this should result in a gradual decline in the size of the Office of the Secretary of Defense, which now employs almost 2,000 officials, and whose growth over the years was largely caused by the failure of the Joint Staff to do its job.[2] That in turn will help to reduce the "layering" of management, which is the recognized source of the near-paralysis of the Defense Department.

An even more powerful effect will be manifest in the Washington headquarters staffs of the Army, Navy, Marine Corps, and Air Force. At present, they employ almost 9,000 people in uniform (mostly officers, and many of them of middle rank)—far more than in the Office of the Secretary, the Joint Staff (1,300) and the civilian-run secretariats of the Army, Navy, and Air Force combined (1,600).[3] These numbers reveal the true balance of power: although the official table of organization puts them at the bottom—below the civilian secretariats, who are in turn below the Secretary of Defense and his Office—it is in fact the service headquarters that have the greatest power. Their huge size is only partly explained by their supervisory role over their own services (which is already the second layer of supervision, the first being provided by the management and force commands outside the Pentagon). In fact, the size of the Washington headquarters of each service also reflects their undeclared function, which is to manipulate the Joint Staff and even more to outmaneuver the Office of the Secretary of Defense. When a civilian official in that office produces a ten-page paper to argue for some decision or other that is uncongenial to a service, its Washington staff can reply with a one-hundred-page refutation; when three civilian officials probe a questionable service proposal, its staff can assign ten officers to defend the service point of view. By controlling the information on detailed matters within the service domain, and by sheer numbers, the headquarters of each service thus systematically resist central direction. If only because of the lively possibility of a hostile Congressional reaction, stimulated by the friends of each service on Capitol Hill, Secretaries of Defense are usually reluctant to overrule professional military advice—which now comes from the service headquarters alone; and to seek alternative options from the Joint Chiefs and the Joint Staff is futile.

Once a National Defense Staff breaks the one-service monopoly over professional military advice, the Secretary of Defense will no longer have to choose between the bureaucratically biased but professional advice of the service headquarters and the alternatives offered by his civilian officials, whose competence in strictly military matters must remain in doubt. If the National Defense Staff is successful in consolidating its authority, the role of the service headquarters must gradually diminish. Eventually, this should also result in their numerical decline. Officers now employed in upholding service interests in the highly complicated free-for-all politics of the present, rudderless, Pentagon will have much less to do, once the National Defense Staff enables the Secretary of Defense to issue clear-cut directives instead of today's tentative guidelines, which offer much room for argument and counterargument on every question, large and small. As the actual work of the service headquarters begins to resemble the official scope of their duties —i.e., the supervision of one-service affairs—there will be a great many empty In trays and visibly underemployed officers. In due course, one may hope, decency will prevail, and the number of positions on the service staffs will be reduced.

In this way, there is a real prospect of reversing the dynamics of bureaucratic expansion, whereby the need to reply to memos and phone calls, represent office views in decision meetings, prepare policy-driving "studies" and counterstudies, and review other people's documents has stimulated the responsive growth of the Office of the Secretary of Defense and the Washington headquarters staffs, which then in turn stimulate the growth of the different management headquarters of each service, and notably the huge matériel and systems commands.

Moreover, as the authority of the National Defense Staff increases, it will be easier to overcome service resistance to the expansion of the centralized "defense agencies" that now provide common services to the Army, Navy, Marine Corps, and Air Force. Some of these agencies, such as the Defense Intelligence Agency, have already absorbed most of the work that used to be done on a triplicate basis by each one of the services. Others, such as the Defense Logistics Agency, have only scratched the surface: nuts and bolts, hammers and radios, blankets and ammunition identical in every way continue to be purchased separately, stored separately, and transported separately—often to the same destinations.

A glance at the budget figures shows that there is much room for centralization: in Fiscal Year 1984, for example, out of $258.2 billion of total budget authority obtained, the thirteen "defense agencies" accounted for less than $11 billion, with the rest in the hands of the separate services.[4] Without imposing an excess of uniformity that would violate meaningful differences in their style of combat and preferred tactics, it should be possible to reduce the triplication that now goes on, not in such things as the development of combat aircraft (where competition is of real value), but certainly in the research, development, production, storage, and distribution of the great mass of prosaic supplies and standard components. At present, however, the power of the service fiefdoms is felt at its strongest in resisting precisely this sort of centralization, which they view as the thin end of a wedge whose broad end is the great and chimerical specter of out-and-out unification. So long as all the services resist centralization—for once in full solidarity—a great deal of triplication will endure, because only a brave or foolhardy Secretary of Defense will overrule military judgment in this matter.

The real reward of a centralization of logistics is not so much in the money that could be saved but rather the resulting debureaucratization of the armed forces. While the direct impact of the National Defense Staff would be felt from above, in reducing the number of officers kept in Pentagon office jobs to safeguard service interests, its indirect effect would be felt from below, in reducing the great number of soldier-clerks and their officer-managers.

In order to do its job, the proposed National Defense Staff would need at least seven major departments:

—"Plans," to prepare war-contingency plans at the level of national strategy, in response to the policy directives of the Secretary of Defense, and to assist him in reviewing and coordinating the contingency plans of each geographic command and the three functional commands. This department should also include a small and stable team specialized in the planning of "special"—i.e., commando—operations. In order to avoid dissipating scarce expertise, this task should not be left to the geographic commands.*

—"Operations," to monitor and evaluate the ongoing activities of the armed forces worldwide—i.e., their day-to-day routine, exercises, maneuvers, fleet movements, etc., in peacetime as well as in combat operations as they occur—in order to keep the Secretary of Defense informed of what is going on, and to advise him on all aspects of such operations, including their coordination at the national level. Naturally, the Secretary of Defense will also continue to receive information directly from the geographic and functional commands (the latter are in the chain of command, unlike the National Defense Staff). This department should be expanded in the event of large-scale combat, rather than kept overstaffed and underemployed on a permanent basis. The various "war rooms" in the Pentagon and White House and their evacuation alternatives, including the airborne command posts, should be supervised by this department.

—"Logistics," to advise the Secretary of Defense on the distribution of current operating and maintenance funds, to help him set priorities in "readiness" for the different forces of the different services. This, of course, implies a prior set of broader decisions on how the total defense funds should be distributed over time—i.e., between the immediate "readiness" of the forces, force-building for the next five to ten years, and research-and-development for future weapons. Advice on those key decisions of national military strategy should come from the Director of the National Defense Staff, in consultation with his department heads and the chief officers of the separate services.†

—"Force Planning," to advise the Secretary of Defense on the distribution of force-building funds, notably weapon purchases, among the diverse forces of the different services. This too implies a prior set of broader decisions on the "time distribution" of defense funds. Under the present system, a Secretary of Defense who takes his job seriously must choose between buying tanks and aircraft, building ships and missiles, without being helped by professional military advice—because the Joint Staff is incapable of setting strategic priorities that cut across service preference, and will unfailingly suggest the sharing out of raises and cuts among all the services. It may safely be anticipated that this department of the National Defense Staff will make the most immediate contribution to the quality of American defense policy.

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* Officers of the various special-operations forces (Rangers, SEALs, etc.), even if quite junior, must also participate in the planning, for only they know what their forces can and cannot do.

† As soon as "readiness" priorities are set at the national level, it is quite likely that the Navy's habit of keeping the maximum feasible number of its ships and submarines operating at sea will begin to be questioned. Both the Soviet Navy and the Royal Navy retain their professional competence and keep up a sufficient diplomatic visibility without the frantic activity typical of the U.S. Navy. Our admirals claim to be impressed by the sheer size of the Soviet fleet, while simultaneously criticizing its practice of keeping its ships tied up at dockside for much of the time. But of course one way of having many ships is precisely to spend less money on operating them nonstop.

--"Research and Development," to advise the Secretary of Defense on the distribution of R & D funds among the different forces. Obviously, national-defense officers cannot have the scientific and technical expertise needed to choose between different technological paths to each military goal. And it is also true that those goals must be continuously reevaluated, in step with evolving scientific and technical feasibility, another task that requires scientific and technical expertise. But at budget time, choices between diverse R & D projects must somehow be made, and this department of the National Defense Staff will at least help the Secretary of Defense avoid the distortions caused by one-service decisions. The propensity to fund most generously R & D that reinforces each service's role, while neglecting other projects, is by now notorious: the Air Force easily spends billions to develop new manned aircraft, but pilot-displacing remotely piloted aircraft remain unfunded; the Navy is similarly reluctant to grant money for the development of mine warfare, while spending vast sums on every aspect of ship development; and the Army neglects R & D for small arms, mortars, engineer equipment and other such things, while funding most generously tank and helicopter development.

—"Organization," to propose structural reforms to the Secretary of Defense, thus creating a center of professional military advocacy for the innovation of the armed forces and their command system. This department is meant to serve as a counterweight to the natural inertia of large institutions and the conservatism of military men. Almost inevitably, this department would soon find itself addressing the diverse aspects of the officer surplus and the resulting bureaucratization of the services.

—"Inspectorate," to advise the Secretary of Defense on the performance of the armed forces and all their support structures, to set evaluation criteria for "readiness" and other measures of effectiveness, and in general to bring errors, malpractices, and specific problems to his attention.

To act as here advertised, the National Defense Staff will of course need highly capable officers, but its formal powers need not be greater than those of the Joint Chiefs organization. With the one minor exception of commando-planning, the new Staff is a purely advisory body charged with the duties that the Joint Chiefs and their Joint Staff are already supposed to perform. Of course, over time, as successive Secretaries of Defense come to rely increasingly on its professional yet disinterested advice, the real influence of the National Defense Staff—and thus its ability to spread reform throughout the military establishment—should steadily increase.

In spite of its larger role and far greater potential, the National Defense Staff should not require more officers than the present Joint Staff, whose members now spend much of their time in watching one another in order to safeguard service interests. Besides, the National Defense Staff will be all the more effective if it is somewhat understaffed, so that its members are compelled to focus on the truly important things.

Once the need for fundamental military reform is accepted, there is a choice to be made: either to seek a great variety of remedies to deal with each separate problem, or else to take the bull by the horns and create a new body of military officers able to deal with those same problems. It is not always a good idea to take bulls by their horns, and there is much to be said for the case-by-case remedial approach. Congress already imposes many detailed decisions on the Pentagon, and it could impose some more, perhaps at the initiative of the "Military Reform Caucus" that has been in existence for some years. Similarly, the powers of the civilian staffs serving the Secretary of Defense could be further increased, to intrude even more in purely military matters, in order to seek out problems and devise solutions. The remedial approach fits very well with the national preference for one-thing-at-a-time pragmatism; it certainly has the virtue of continuity. That, however, is also its greatest defect: we have been trying the remedial approach for many years without success.

It cannot be denied that the great reform proposed here, which is intended to accomplish all the others, would itself be very hard to achieve. For one thing, it would require a major change in the National Security Act, which Congress is unlikely to enact without much Presidential persuasion. The new cadre of nonservice officers will immediately evoke the dread prospect of all-service unification, arousing much Congressional opposition for all sorts of reasons, from the plain sentimentality of some veterans, to antique fears of military usurpation by armed forces that are no longer divided. Other Congressmen will decry the "elitism" of the reform, which would reserve the higher command of the forces and the national advisory role to a small body of selected officers. The same Congressman who would never dream of going to a nonelite and quite inexperienced surgeon for a minor operation might insist without any sense of incongruity that the safety of the nation is best left in the hands of nonelite officers, not specially trained in the art of multiservice staff and command.

And when the time comes for the preliminary hearings at which expert witnesses will be asked to testify, no help can be expected from military officers on active duty. Any number of retired generals and admirals will readily join General David Jones in denouncing the present system, but it is idle to expect confirmation from the inmates of the present service-dominated structure. With their careers at stake, on the ground of service loyalty, they cannot criticize the system unless they are totally certain that it will be changed, and very soon.

Because of these obstacles and more, the one great reform here proposed is therefore most difficult to achieve. But there really is no other choice. To select the best military officers, to liberate them from the one-service prisons in which they must now operate, and to let them get on with the job of running the show, while carefully initiating more detailed reforms, is the only remedy that can really work. If this reform is rejected, if the present system is allowed to endure, it will continue to absorb much treasure and give us inadequate military power. And it will continue to yield failure in combat, in spite of the true patriotic dedication, high skill, and fighting courage that are so abundant in our armed forces.

INTERNATIONAL AFFAIRS

TUESDAY, FEBRUARY 19, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 3:34 p.m., in room SD-608, Dirksen Senate Office Building, the Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Symms, Grassley, Kasten, Gorton, Danforth, Johnston, Sasser, Metzenbaum, and Riegle.

Staff present: Stephen Bell, staff director; and Charles Flickner, senior analyst for international security.

For the minority: Richard N. Brandon, staff director; and Douglas Olin, senior analyst for national security affairs and technology.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. The committee will please come to order. First of all, Mr. Secretary, I want to thank you for adjusting your busy schedule to accommodate us this afternoon. Obviously with the official visitors such as Mrs. Thatcher who are now in our country, you would be unable to help us with your testimony during the remainder of the week.

We have a couple of hours, and I believe that a number of Senators will move in and out of the hearing as their schedules permit.

When you testified before the committee 2 years ago we had a very valuable discussion on the impact of the international economy on our domestic economy.

Last year the committee's questions emphasized Central America and the Middle East. This afternoon, we again solicit your views on these important subjects.

LARGE DEFICITS CONSTITUTE SERIOUS PROBLEM

Last year you cautioned this committee that large budget deficits were going to constitute a serious problem at some point in time, and that the Government would have to step up to that problem. I think those are exact quotes from your testimony. I could not agree with that statement any more than I do, and I could not be more concerned about the deficit than I am. We need to do something about it this year.

As I have told previous witnesses, there is a lot of talk around the Senate about a freeze, depending upon how one interprets it. If a freeze just means that budget authority is frozen for 1 year, clearly it will not have much long-term effect, and clearly, it will not reduce the deficits nearly as much as we have to.

I think you know, by virtue of your participation with the President in the overall budget preparation, that the President has proposed ending 11 major domestic programs, and seeks major reforms in 13 others. He has challenged us with his recommendations on how spending restraint ought to occur, and many of us want to do more, but many of us are concerned that we cannot do it in exactly the manner prescribed by the President.

With your experience in the past as Director of OMB and Secretary of the Treasury, that should come as no shock. I do not think any President's budget has ever been approved, in total, by Congress, whether we had a congressional budget process or not. But I think there is a genuine willingness to come up with a major deficit reduction package, if we can get the right mix, and we are going to try.

As we discuss the international economy and the budget for the international programs, the harsh budgetary realities overshadow our discussions, and cannot be set aside. Unlike most domestic programs, defense and international affairs, as you have so aptly said, are partially driven by external affairs, and most of us understand that. But last year, the funding for international programs increased significantly.

This year, it seems to me, that if that is going to be the case again, it is going to be very difficult. We are being asked, as I told you, to take almost all of the deficit reduction out of the domestic programs, and frankly, when you remove Social Security and defense, you are getting all of the savings out of one-third of the budget, because defense, Social Security, and the $150 billion we are paying on interest, just interest on the debt, takes up the remaining two-thirds.

TRADE DEFICIT

So, before going to the budget on international affairs, I just would like to raise an area of concern, that does not appear in the budget, but has come up in the meetings we have had, and that is the trade deficit of $123 billion.

We paid foreigners $123 billion more for their goods than they paid us. That figure dwarfs the $15 billion in foreign aid that, more or less, that is in your direct area of jurisdiction. I would hope that at some point you could comment on that trade imbalance.

INTERNATIONAL AFFAIRS

With reference to the requests for international affairs, let me preface my remarks with a statement, that I understand that you did not get everything you wanted inside the executive branch budget process. However, I might suggest you did not do badly. And you did insist, and the budget does state, that there are a couple of programs where you have not yet arrived at a consensus. They are left out, and you ought to discuss them here today, so that we have some notion of what we might put in to the budget for supplementals and budget amendments.

The aggregate budget figures for international affairs' function, at first glance, appear to reflect a very large program reduction. The budget authority totals are decreased by about $6.1 billion between 1985 and 1986, and outlays go down about $1.2 billion in that same period.

But I think it is only fair that we share with you what our review would indicate about that approach. It tells a little different story because almost $4 billion of the savings come from one proposal, termination of the Eximbank Direct Loan Program. Another $1.6 billion is the result of declining balances and expiring programs, trust funds and receipts, none of which reflect policy changes, or require any congressional action.

So these two items account for most of that $6.1 billion reduction but it does not mean that the discretionary appropriations, other than Eximbank, are frozen at the 1985 level.

AID TO ISRAEL

The 1985 total includes about $720 million in supplemental requests, that have not been enacted, so if I back that out of the amount, from the 1985 total, I would conclude that the 1986 appropriated accounts increased by about $100 to $200 million, and that is without the aid for Israel in 1986, or beyond.

None of us seek to terminate aid to Israel. In fact a large 1985 supplemental request is expected, once you and the President are satisfied, as I gather, that the Israelis have an economic adjustment program. Whether that occurs or not, economic aid for Israel is not in the budget, and we have to talk about that.

So at a minimum—and you might correct this—we should increase the fiscal 1986 request by $1.2 billion, the amount provided thus far in fiscal 1985 for economic aid to Israel. That brings the possible increase to about $1.4 billion.

AFRICAN FAMINE RELIEF FUND

There are some more items, and I will just quickly talk to them. The 1986 budget assumes no extraordinary African famine relief funds, and I do not think any of us know when the drought there will stop, or if the famine there will cease. There is little evidence that we are ever going to dramatically reduce, in the foreseeable future, the African food shipments, unless we plan to terminate many of the non-African programs.

1986 APPROPRIATIONS FOR FOREIGN ASSISTANCE COULD EXCEED 1985

Defaults and rescheduling of the FMS loan guarantees are expected to exhaust the guarantee reserve fund, that is the reserve fund that was appropriated to cover such contigencies. So, these two items could require, and I am just going to put a number, $300 million to $350 million, maybe $400 million. If the President's Eximbank proposal is adopted without modification, I would conclude that the other discretionary appropriations for international programs could exceed a freeze by about $1.7 billion, about a 9-percent increase.

If my assumptions are close at all to the mark, then the 1986 appropriations for foreign assistance, the ongoing line items of the State Department, and the USIA, could exceed the 1985 level by some amount. It might be significant; it might not.

I am not saying that accommodating your actual request is impossible, but I am concerned. We are talking about freezing most programs, and then cutting below a freeze, so I hope that we will be able to talk candidly today about how international programs fit in this approach.

I regret that my remarks were both lengthy and detailed but I think they outline the nature of the problem we have with reference to our congressional budget process. We will have to put some numbers for international programs in our budget resolution, and we will have to put them in along with some very dramatic changes in domestic programs.

I thank you again for appearing, and unless there is an opening statement by Senator Johnston, we will proceed. I thank all the Senators for being here.

At this time, without objection, I would like to insert into the record a statement from Senator Hatch who is unable to be here.

[The statement of Senator Hatch follows:]

Statement of Senator Hatch

Thank you for coming, Mr. Secretary. We need your advice as the Nation's chief foreign policy spokesman about how to balance our increasingly scarce resources with the threats we meet abroad and the ever-expanding foreign commitments we must undertake to meet those international threats and challenges.

Academicians and the media tend to measure U.S. world commitment in terms of allinances, treaties, and executive agreements; this perspective distorts the real scope of our influence and involvement in the world. Indeed, major alliances such as CENTO, SEATO, and the Colombo Treaty Organization have ceased to exist; ANZUS's future is clouded, as is that of the OAS.

At the same time, our less structured and informal commitements have increased dramatically. Our "constituents" include the Nicaraguan rebels; persecuted Soviet Jews; and the enslaved peoples of East Europe, Afghanistan, and Southeast Asia. The inhumane behavior of the Soviet Union and its surrogates leaves victims who turn to us for help. Indeed, increasingly more peoples are asking us to resolve their grievances—not trusting the institutions, such as those created under the United Nations, which were designed for this purpose. As a consequence, we find ourselves making the most extensive effort in the history of mankind to maintain a world order which is built upon a shaky foundation of very complex diplomatic initiatives: We practice traditional balance-of-power politics in Asia, the Middle East, and Latin America; provide very loose bipolar bloc leadership in Europe, and foster bilateral security arrangements with Japan, Korea, and, less formally, with Taiwan, Israel, and Egypt.

Because our international system cannot divest itself of threat, every post-World War II administration has been forced to reinforce its diplomacy with military strength. The recent statements of our distinguished witness today, Secretary of State George Shultz, demonstrate that. For example, despite the $1.5 trillion that we have invested in NATO in the past decade, Secretary Shultz, too, wants a strong military ace-in-the-hole to play when diplomacy fails.

It may be that our greatest weakness is our willingness to make others bear more of the responsibility for maintaining a peaceful international order. To be more specific:

The U.S. global defense burden should be shared by those who benefit from it—especially Japan and the nations of Western Europe.

A stable international order, and the reduction of all threats of warfare at all levels—nuclear, conventional, and low-intensity conflict—is the responsibility of all nations, but especially the so-called great powers, including the Soviet Union.

However, to my mind, Mr. Chairman, we should systematically explore the administration's policies to reduce the causes of threats before discussing the resource requirements that they generate.

Chairman **Domenici**. Mr. Secretary, you may proceed.

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE, ACCOMPANIED BY WILLIAM SCHNEIDER, JR., UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

Secretary **Shultz**. Thank you, Mr. Chairman, and distinguished members of the committee. Let me make a couple of comments at the outset First, as I have understood the concept of a freeze, it is that we are shooting for an overall total. Within the total, there is going to be a lot of movement around, and so it does not mean that everything is frozen in some uniform way, but just that we should try to come out in a situation where we do not have major increases, overall.

I am going to ask Under Secretary Schneider, after my testimony, if you request it in a question, to unravel the complicated budget picture as we see it, to set alongside the picture that you saw, because I think you did put the matter very well, and we would like to give our view of that.

Second, I do not take back anything I said about the importance of doing something about the deficit. I agree even more firmly, and if you wish, when we get to the question period, I will be glad to give you my view of the deficit problem, and its relationship to our investment needs and the trade deficit, and so forth.

But I think my charge here is to testify before you, first of all, on the whole foreign assistance request, and I have a long statement that I would like to have put in the record, and I have a shorter statement that I would like to present to you, if that is agreeable, Mr. Chairman.

Chairman DOMENICI. Indeed. Your detailed statement will be made a part of the record, without objection.[1]

FOREIGN ASSISTANCE PROGRAMS VITAL

Secretary SHULTZ. Our foreign assistance request for fiscal year 1986 comes before this committee at a time when this administration and the Congress are committed to bringing our budget deficits down. As a former Budget Director, perhaps I am more sympathetic than most to the immense challenge this posts, and the painful choices that will have to be made.

At the same time, we must bear in mind that our foreign assistance programs are vital to the achievement of our foreign policy goals. A world of peace, freedom, international stability, and human progress cannot be built by the United States alone.

We need the support and cooperation of the many friends and allies around the world, who share our hopes, and dreams, of a better world, and who rely on us.

And if we are to count on their support in facing the difficult and sometimes dangerous challenges of the modern world, we must ourselves be a reliable partner. We must be consistent in our devotion to the principles we cherish and proclaim: to promote prosperity, to defend freedom, to help build democracy and respect for human rights. To help alleviate suffering, and to protect our friends and allies against aggression. In his State of the Union address, President Reagan noted that, "Dollar for dollar, our security assistance contributes as much to global security as our defense budget." Strengthening our friends is one of the most effective ways of protecting our interests and furthering our goals.

It gives them the ability and the confidence to defend themselves, and to work for peace. If we are willing to pay the relatively modest cost and make the necessary sacrifices today, we can avoid far greater costs and sacrifices in the future. Foreign assistance is a prudent investment in our future, and the world's future.

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[1] See p. 366.

FOREIGN ASSISTANCE LINKED TO FOREIGN POLICY GOALS

I first appeared before this distinguished committee to justify our foreign assistance programs over 2 years ago. I sought then, as I did last year, to show how closely linked our foreign assistance programs are to our most fundamental foreign policy goals.

The events over the past 2 years have convinced me more than ever before that we are on the right track. We have strengthened our relationships with our friends in the developing world against Soviet expansionism. We have seen a number of developing countries move toward free and more open economies. Increasingly, the world recognizes that statist economic systems do not work. Free market economies do. And we have witnessed extraordinary progress in the growth of democratic institutions, and a decline of dictatorships, particularly in our own hemisphere.

It is no coincidence that along with the emergence of freer societies we see more open economies. One supports and reinforces the other. People, if they have a choice, want economic growth. They want prosperity. They need only the personal security and the political and economic environment that allows them to exercise their will and use their talents.

Our support for the security and territorial integrity of our friends, therefore, advances the most basic human goals of prosperity and freedom. But it also advances another goal, peace.

As President Reagan said in his Second Inaugural Address:

> America must remain freedom's staunchest friend, for freedom is our best ally, and it is the world's only hope to conquer poverty and preserve peace. Every blow we inflict against poverty will be a blow against its dark allies of oppression and war. Every victory for human freedom will be a victory for world peace.

MAINTAIN HEALTHY AMERICAN ECONOMY

There will inevitably be occasional setbacks, but if we stay the course, I believe the emerging pattern of stable and democratic governments will slowly but inexorably grow, and be strengthened. Much remains to be done. The most effective contribution we can make to the developing world is to maintain a healthy American economy. Here is where that deficit reduction job comes in.

Our economic growth rate in 1983 was a prime reason for the sharp increase in U.S. imports from the non-OPEC developing countries. The developing nations will reap even more substantial benefits from the vigorous growth of our economy in 1984. They also gain, as we do, from our commitment to restrain protectionist forces.

More than any other factor, however, the domestic policies of these countries will determine the strength and sustainability of their economies and their political institutions. Our foreign assistance can provide those critical incremental resources to help them achieve these objectives.

With this framework in mind, we have engaged in an exhaustive budget review process to assure that the sum of our resources, and each individual component are the absolute minimum essential to implement and support our foreign policy.

OVERVIEW OF 1986 BUDGET AND 1985 SUPPLEMENTAL

Let me give an overview of the 1986 Budget and 1985 supplemental request.

Fiscal year 1986 foreign assistance request totals $14.8 billion, a $300 million reduction from the fiscal year 1985 continuing resolution level. As I will explain later, we have yet to determine the economic assistance level for Israel. When that assistance figure is eventually included, our request will be higher than the previous year. Economic assistance, which includes development assistance, Public Law 480, the economic support fund, and contributions to multilateral development institutions, accounts for $8.2 billion. Military assistance, which includes military grants, loans, and training, totals $6.6 billion.

The remaining $4.5 billion requested for the international affairs function, budget function 150, principally finances the operation of the Department of State, USIA, the Export-Import Bank, the Board of International Broadcasting, our assessed contributions to international organizations, contributions to U.N. peacekeeping activities, and U.S. participation in multilateral international conferences

Within the international affairs function, some appropriation accounts would receive an increase under our request, while others would decline. The function 150 total, however, is well below the fiscal year 1985 enacted level, as you noted.

This will remain true, even with an add-on for Israel that we may request in the coming weeks. These increases and decreases among individual appropriation accounts reflect the priorities of the administration, and the "budget freeze" philosophy that was applied to this year's budget process. They also reflect our efforts to distribute our scarce resources in a way that will maximize our foreign policy returns, and help meet the pressing development and security needs of our strategic partners.

We are also submitting three requests for supplemental appropriations in fiscal year 1985. These include: $235 million in new budget authority to complete our 1 billion package of relief for the victims of famine that continues to devastate much of sub-Saharan Africa; a $237 million supplemental to meet our arrearage payments to several multilateral development institutions; and $252 million, primarily to provide additional security for U.S. personnel and facilities abroad.

Mr. Chairman, my full statement describes, in some detail, how U.S. national interests are served by our assistance programs. I will limit my remarks to highlight some of our major foreign policy concerns in each region.

LATIN AMERICA AND THE CARIBBEAN

First, Latin America and the Caribbean. Mr. Chairman, nowhere has the dynamic linkage between foreign assistance and U.S. national interests, and between democracy and economic opportunity, been more dramatically illustrated than in Latin America and the

Caribbean. The past year has provided strong evidence that democratic development and the rejection of the Communist left and the far right are the keys to enduring peace and improving standard of living for all. Our policy of lending political, economic, and military assistance to pro-democratic forces is working. In 1979, four of the five Central American countries were undemocratic, but 6 years have produced dramatic change. Today, only Nicaragua remains under a dictatorship, having traded a tyrant of the right for the tyranny of the left.

El Salvador is the most dramatic case of progress. As recently as 1 year ago, many in the United States, in Western Europe, and even in Latin America, believed El Salvador was caught in an endless war between guerrillas of the left and death squads of the right.

But the National Bipartisan Commission on Central America insisted that electoral democracy and political dialog, not externally imposed "power sharing," would prove a workable foundation for attacking the seamless web of political, economic, social, and security problems. You made your own contributions to that effort, Mr. Chairman.

Increased economic and security assistance were necessary to give democracy, reform, and economic revitalization a fighting chance.

Last year demonstrated that President Duarte's course was the route most likely to lead to greater respect for human rights and a better life. The Salvadorans themselves made the point in two rounds of national elections in 1984. And they did it again in a different dimension when a civilian jury found five former National Guardmen guilty of the murders of the four American churchwomen. It would be naive to claim that all is now reformed, centrist, and peaceful in El Salvador. But the progress is dramatic and undeniable, and U.S. firmness on principles, and on behalf of our Salvadoran friends, has had a lot to do with it.

Another example is Guatemala where, in defiance of coventional wisdom, the Constituent Assembly elections 7 months ago were not only widely accepted as honest and open, but revealed that centrist forces constitute the political majority. There is one issue, however, on which considerable controversy still reigns: Nicaragua. While we are promoting democratic reform throughout Central America, the Soviet Union and Cuba are abetting the establishment of a Communist dictatorship in Nicaragua.

If the forces of dictatorship continue to feel free to aid and abet insurgencies in the name of "proletarian internationalism", it would be absurd if the democracies felt inhibited about promoting the cause of democracy.

Peace and economic development in Central America require both the reliability of multiyear funding and the confidence that this long-term commitment will continue to be tied to equity, reform, and freedom. Bipartisan support is essential.

The lessons from the recent past and the guidelines for the near future can be condensed into an assertion: The skeptics were wrong about El Salvador, they were wrong about Grenada, and they were wrong about Nicaragua, and all for the same reasons.

Latin America and the Caribbean, I believe that the administration and the Congress have reason to conclude, that the policies that we have been following in the past 4 years are succeeding. The best option for the next 4 years is to continue these efforts, based on firm, bipartisan support.

AFRICA FACING FAMINE AND ECONOMIC STAGNATION

I turn now from the promising developments in Latin America to a region where problems continue to be grave. I would like to devote the major portion of my discussion of Africa today to the economic crisis.

In doing so, I do not mean to minimize the relationship between economic development and the national security of African states.

States threatened by Libyan adventurism, or Soviet-armed hostile neighbors, cannot devote the energy or resources necessary to economic development. And economically fragile societies are most vulnerable to subversion and attack.

Our total fiscal year 1986 request for Africa is just over $1.2 billion. Of that amount over a billion is for economic assistance. While the military component is small, it is nevertheless extremely important, if we are to provide the bear minimum in the way of defense equipment for our friends facing threats. I would like to focus specifically on the two most urgent crises facing Africa today: Famine and economic stagnation. During recent months, untold thousands of Africans have perished. We estimate that some 14 million Africans remain at risk. If they are to survive, they need urgent assistance in terms of food, medical care, and shelter.

The United States has mounted an unprecedented campaign to provide both economic and emergency food assistance to Africa. In this effort, we have not allowed political or ideological differences with any government to weaken our determination to direct assistance to those in need. Since October of last year, we have committed more than $400 million to send over 1 million tons of emergency food and other types of humanitarian assistance to Africa.

Our current request for $235 million in supplemental emergency funding for Africa will bring total food and emergency assistance this year to over $1 billion. I think we can be justifiably proud of what we have been able to accomplish in such a short period of time. I assure you that our response will continue to be a generous one,

Drought has aggravated the problem, but it is not the principal cause of Africa's economic crisis. Many of the African governments recognize that past policy failures have contributed to the current economic crisis. While we seek to address the immediate crisis, therefore, we must also seek more sustainable solutions to Africa's economic problems. To assist reform-minded governments to undertake desirable reforms, the administration has established two new programs: The African for Economic Policy Reform Program, funded with $75 million in economic support funds in fiscal year 1985, provides additional support for those African countries which are in the process of implementing policy changes, or have indicated a willingness and ability to establish growth-oriented policies, and strengthens the international assistance framework for Africa.

Preliminary reaction to this new initiative has been encouraging. An increasing number of African countries are beginning to alter in a fundamental way their national economic policies.

Above all, the relevance of free market economies as opposed to statist solutions has become clear to African leaders as never before.

Second, the food for progress initiative recently announced by the President is also targeted at achieving policy reform, but exclusively in the agricultural sector. This initiative would use food aid to promote reform in the key agricultural sector.

The details of this proposal, including funding levels and sources, will be transmitted to the Congress shortly.

NEAR EAST AND SOUTH ASIA

Turning to the Near East and South Asia, one of the most important foreign policy goals of this administration is to help achieve a lasting peace between Israel and its Arab neighbors.

Israel and Egypt remain our principal partners in the quest for peace, and these two nations would be the largest recipients of our proposed foreign assistance for fiscal year 1986.

The United States has a commitment to Israel's security extending over three decades. Further progress toward peace depends in part on Israel having sufficient confidence in its ability to withstand external threats but also confidence in U.S. support and assistance. For these reasons we are recommending a significant increase in foreign military sales on a grant basis for Israel.

In addition, we have indicated our willingness to provide extraordinary assistance in support of a comprehensive Israeli economic program that deals effectively with the fundamental imbalances in the Israel economy. Without such a reform program, however, additional U.S. assistance would not resolve Israel's economic problems but merely help perpetuate them.

Moreover, without economic adjustment, Israel will become even more dependent on U.S. assistance in the future. Our objective is to seize the "window of opportunity" provided by greater Israeli understanding of the problems of their economy. Accordingly, the administration intends to hold open, for the time being, the amount and form of ESF which we will be requesting from the Congress pending further discussions with Israel and further evolution of its stabilization program.

Our discussions will continue to focus not only on short term stabilization measures but also on Israel's longer range development objectives, so that Israeli citizens can have confidence in a brighter, more prosperous future.

We agreed during Prime Minister Peres' visit last October to work together to promote foreign investment in Israel, particularly in the high technology area where Israel has a comparative advantage.

Both governments are examining existing programs and frameworks which might help to improve Israel's investment climate, and attract venture capital from abroad. It is clear, that in Israel's case, as in other countries, mobilizing both domestic and foreign venture capital depends on an atmosphere that encourages private enterprise, appropriate tax structures, and market pricing policies.

Private sector initiatives hold the greatest promise for helping Israel achieve its development goals, and we are encouraged by the interest that has been generated in both countries. Our real objective is to support Israel's own efforts to seize the opportunity to establish the fundamental conditions for economic growth in an age of new technology.

I might say, Mr. Chairman, that Prime Minister Peres has been taking very difficult decisions, and I admire the progress he has made, not only in the economic sphere, but in dealing with the Lebanon problem. There are many problems remaining, but I personally have a great deal of confidence, that in the end, these problems will be resolved, and there will be a very bright economic future for Israel.

The Camp David accords and the Egyptian-Israeli peace treaty remain the cornerstone of our Middle East peace policy. Egypt has demonstrated its first commitment to those accomplishments by repeatedly refusing to disavow them as a price for resuming its historic leadership role in the Arab world.

Our assistance helps ensure that Egypt will remain strong enough to continue to resist the pressures of radical forces which seek to undo what has been achieved. Egypt remains an important force for moderation and stability, not only in the Middle East but also in Africa, where it plays an important role in helping African states deter Libyan adventurism.

The Fiscal Year 1986 Foreign Military Sales Program has been increased to enable Egypt to continue replacing obsolete Soviet equipment and remain a credible deterrent force in the region.

SOUTH ASIA

A major foreign policy objective in South Asia is to obtain a negotiated settlement to get the Soviet Union out of Afghanistan, so that the refugees can return and the Afghans can exercise their own sovereignty and independence.

In our efforts to achieve this goal, it is vital that we help ensure the security of Pakistan, in the face of Soviet intimidation. Our 6-year assistance program for Pakistan serves this goal: It is designed to support Pakistan's economy and its development, and to help strengthen its defenses through provision of military equipment and training.

SECURITY ASSISTANCE FOR EUROPE

Security assistance proposals for the European region are designed to redress the military imbalance in Europe and counter the increased Soviet military threat in Central Europe and in Southwest Asia.

The assistance supports key NATO allies, and has the dual result of providing the United States with continued access to important military bases, and helping these countries modernize their own military capabilities. Our security assistance to Greece and Turkey contributes to important strategic policy objectives on the southern flank of NATO. Turkey's position between the Soviet Union and the Middle East, and proximity to southwest Asia make it a natural barrier to Soviet expansion in to the Middle East and the Persian Gulf.

We are also seeking a substantial level of security assistance for Greece. While we have our differences with the Greece Government, we see those differences in the context of a relationship between two democratic allies who share important interests. Our security assistance program is an important element in our relationship with Greece. It is exceeded only by our request for Israel, Egypt, Turkey and Pakistan.

EAST ASIA AND PACIFIC

Foreign assistance is an investment in the future that can benefit both recipient and donor. This is particularly evident in the East Asia and Pacific region where the returns paid on our foreign assistance investment have been enormous. For some 20 years, East Asian countries have achieved higher economic growth rates than any other region of the world.

In spite of this generally bright picture, the region still has pressing economic and security problems that we must confront.

The Philippines has passed through difficult times that have adversely affected the economy. The Philippines' situation is further clouded by a growing armed Communist insurgency. The revitalization of democracy, the establishment of sustainable economic growth, the maintenance of our vital security relationship, and the successful resistance to a Communist takeover are intertwined. Our integrated economic and military assistance program is designed to support all these objectives.

Another important U.S. treaty ally is the Republic of Korea. So far we have been successful in deterring North Korean aggression and preventing a recurrence of hostilities on the Korean Peninsula. We proposed to continue an FMS credit program that will permit the ROK to improve the capabilities of its combat forces, many of which are stationed with our own forces along the DMZ.

MULTILATERAL DEVELOPMENT BANKS

Thus far I have stressed the vital role American bilateral assistance plays in promoting the security and stability of the developing world. This task is far too great for one country to do alone.

Fortunately, we do not have to. Our friends and allies in the industrial world devote a considerable amount of their resources to the task of promoting the development process.

A coordinated approach among donors has always been desirable. It is now critical. A principal tool for such coordination is, and will continue to be, the pooling of a portion of our economic assistance through the multilateral development banks. MDB lending remains a significant and growing source of investment capital for developing countries.

The MDB's play an equally critical role by providing sound, market-oriented economic policy advice to their borrowers.

In recent years we have been successful in negotiating overall replenishment levels, which we believe are adequate to the needs of borrowing members, but also take in to consideration our budgetary constraints.

Maintaining U.S. leadership, however, depends on our meetings these obligations in a timely manner. I urge the Congress to support fully the Fiscal Year 1986 budget and Fiscal Year 1985 Supplemental requests.

In closing, Mr. Chairman, I would like to emphasize the basic theme of this year's budget presentation. We have a responsibility to stick with the policies that have worked or begun to work. Quick fixes, pulling back from the fray, or hoping for diplomatic miracles are not responsible options. But if we stand together, firmly, predictably and realistically, defending our principles and our friends, and do so in the steadfast manner the problems require, then we can prevail.

Our fiscal year 1986 budget request is designed to do just that. Thank you, Mr. Chairman.

Chairman DOMENICI. Thank you, Mr. Secretary.

[The prepared statement of Secretary Shultz follows:]

STATEMENT BY

THE HONORABLE GEORGE P. SHULTZ

SECRETARY OF STATE

BEFORE THE

BUDGET COMMITTEE

UNITED STATES SENATE

WASHINGTON, D.C.

TUESDAY, FEBRUARY 19, 1985

I. OPENING

Mr. Chairman and distinguished members of this committee,

I know that we agree on the need for prudent investments abroad to enhance our national security, promote economic and political freedom, and reflect the humanitarian concerns of the American people. Foreign assistance is such an investment. Yet our foreign assistance request for FY 1986 comes before this Committee at a time when this Administration and the Congress are committed to bringing our budget deficits down. As a former budget director, perhaps I am more sympathetic than most to the immense challenge this poses and the painful choices that will have to be made.

Recognizing the overriding importance of reducing the budget deficit, we have carefully constructed our economic and military assistance programs to a level and mix that represent the minimum requirements to support our foreign policy objectives.

At the same time, we must bear in mind that our foreign assistance programs are vital to the achievement of our foreign policy goals. A world of peace, freedom, international stability, and human progress cannot be built by the United

States alone. We need the support and cooperation of the many friends and allies around the world, who share our hopes and dreams of a better world, and who rely on us. And if we are to count on their support in facing the difficult and sometimes dangerous challenges of the modern world, we must ourselves be a reliable partner. We must be consistent in our devotion to the principles we cherish and proclaim: to promote prosperity, to defend freedom, to help build democracy and respect for human rights, to help alleviate suffering, and to protect our friends and allies against aggression.

In his State of the Union address, President Reagan noted that "dollar for dollar, our security assistance contributes as much to global security as our own defense budget." Strengthening our friends is one of the most effective ways of protecting our interests and furthering our goals. It gives them the ability and the confidence to defend themselves and to work for peace. If we are willing to pay the relatively modest cost and make the necessary sacrifices today, we can avoid far greater costs and sacrifices in the future. Foreign assistance is a prudent investment in our future, and the world's future.

I first appeared before this distinguished Committee to justify our foreign assistance programs over two years ago. I sought then, as I did last year, to show how closely linked our foreign assistance programs are to our most fundamental foreign policy goals.

The events over the past two years have convinced me more than ever before that we are on the right track. We have strengthened our relationships with our friends in the developing world against Soviet expansionism. We have seen a number of developing countries move toward free and more open economies. Increasingly, the world recognizes that statist economic systems do not work. Free market economies do. And we have witnessed extraordinary progress in the growth of democratic institutions and in the decline of dictatorships, particularly in our own hemisphere.

It is no coincidence that along with the emergence of freer societies we see more open economies. One supports and reinforces the other. People, if they have a choice, want economic growth. They want prosperity. They need only the personal security and the political and economic environment that allows them to exercise their will and use their talents. Our support for the security and territorial integrity of our friends, therefore, advances the most basic human goals of prosperity and freedom. But it also advances another goal, peace. We have seen over the years that economic progress, individual liberty, and world peace are closely related. As President Reagan said in his Second Inaugural Address: "America must remain freedom's staunchest friend, for freedom is our best ally and it is the world's only hope to conquer poverty and preserve peace. Every blow we inflict against poverty will be a blow against its dark allies of oppression and war. Every victory for human freedom will be a victory for world peace."

Today we are seeing developments in the Third World which, if we continue to nurture them, will lead to a more secure and prosperous world. There will inevitably be occasional setbacks, but if we stay the course, I believe the emerging pattern of stable and democratic governments will slowly but inexorably grow and be strengthened.

Much remains to be done. The most effective contribution we can make to the developing world is to maintain a healthy American economy. Our economic growth rate in 1983 was a prime reason for the sharp increase in U.S. imports from the non-OPEC developing countries to $92.3 billion, some 24% over the previous year. The developing nations will reap even more substantial benefits from the vigorous growth of our economy in 1984. Moreover, many of the developing countries are benefitting from lower debt service costs as a result the progress we have made in reducing U.S. interest rates.They also gain, as we do, from our commitment to restrain protectionist forces.

More than any other factor, however, the domestic policies of these countries will determine the strength and sustainability of their economies and their political institutions. Our foreign assistance can provide those critical incremental resources to help them achieve these objectives.

With this framework in mind, we have engaged in an exhaustive budget review process to assure that the sum of our resources and each individual component are the absolute minimum essential to implement and support our foreign policy.

Overview of 1986 Budget and 1985 Supplemental Request

The FY 1986 foreign assistance request totals $14.8 billion, a $300 million reduction from the FY 1985 Continuing Resolution level. As I will explain later, we have yet to determine the economic assistance level for Israel. When that assistance figure is eventually included, our request will be higher than the previous year. Economic assistance, which includes Development Assistance, PL 480, the Economic Support Fund, and contributions to multilateral development institutions, accounts for $8.2 billion. Military assistance, which includes military grants, loans, and training, totals $6.6 billion.

The remaining $4.5 billion requested for the International Affairs Function--budget function 150--principally finances the operation of the Department of State, USIA, the Export-Import Bank, the Board of International Broadcasting, our assessed contributions to international organizations, contributions to U.N. peacekeeping activities, and U.S. participation in multilateral international conferences.

Within the International Affairs Function--budget function 150--some appropriation accounts would receive an increase under our request, while others would decline. The function 150 total, however, is well below the FY 1985 enacted level. This will remain true even with an add-on for Israel that we may request in the coming weeks. These increases and decreases among individual appropriation accounts reflect the priorities of the Administration and the "budget freeze" philosophy that was applied to this year's budget process. They also reflect our efforts to distribute our scarce resources in a way that will maximize our foreign policy returns and help meet the pressing development and security needs of our strategic partners.

Our FY 1986 foreign assistance request contains only one modest new initiative--an enhanced economic aid package for the Andean democracies of Ecuador, Peru and Bolivia. With that one exception, our 1986 budget request by and large represents a continuity program, reflecting both the overall fiscal constraints under which we are operating and the fact that many of our earlier initiatives--especially in Central America--are now well underway and beginning to show progress.

As in the past, the largest single component of our foreign assistance request is for Israel and Egypt--twenty eight percent (28%) of the total. This percentage, of course, will be higher when include economic assistance funds for Israel. Assistance to base rights countries--Spain, Portugal, Greece, Turkey and the Philippines--accounts for an additional sixteen percent (16%), while military access and frontline states such as Korea and Thailand take up another thirteen percent (13%). Central America and the Caribbean represent another eleven percent of the request (11%). All other country programs account for only twelve percent (12%) of the total resources requested. This twelve percent, however, is spread among more than eighty separate countries and regional programs. Finally, contributions to multilateral development institutions and voluntary contributions to international organizations and programs make up ten percent (10%) of the request, with the remainder of the amounts requested going to the Peace Corps, migration and refugee assistance, international narcotics control activities and a number of smaller programs.

Turning to the specifics of our request, I would like to make the following brief observations:

-- In Development Assistance, we are requesting $2.1 billion to attack serious conditions of poverty in Africa and Asia, Latin America and the Near East, and to help establish the basic conditions for economic progress. We place heavy emphasis on policy reform, greater use of the private sector, and on technology transfer to foster development breakthroughs. These economic programs are a critical aspect of our overall foreign policy objectives.

-- Closely related to the Development Assistance request is a request for $1.3 billion in PL 480 for food assistance and balance of payments support to friendly governments. Food aid remains the centerpiece of the American people's humanitarian response to the tragic famine conditions in Africa.

-- The $2.8 billion requested for the Economic Support Fund is $1 billion below the amount appropriated in the FY 1985 Continuing Resolution. This is due in part to the fact that we have deferred making any ESF request for Israel at this time. I will elaborate on the question of economic assistance to Israel later in my remarks.

-- Our request for military assistance--that is, direct Foreign Military Sales credits and grant MAP--is $860 millionmore than was appropriated in 1985. Most of this increase, $525 million, is accounted for by higher levels for Israel ($1.8 billion as opposed to $1.4 billion in 1985) and Egypt ($1.3 billion as opposed to 175 $1.75 billion). In addition, our military assistance request for Turkey has been increased from the 1985 level of $700 million to $785 million. For the

Philippines, we are requesting a $75 million increase over the FY 1985 level.

-- The $2.5 billion requested for budget sub-function 153 includes critically important funds to enhance our security program in the face of increasing terrorist threats against U.S. personnel and facilities. Additional funds are also requested to expand and improve the Department's ability to obtain and interpret foreign policy information

In conjunction with our FY 1986 request, we are submitting three requests for supplemental appropriations in FY 1985. These include: $235 million in new budget authority to complete our $1 billion package of relief for the victims of the famine that continues to devastate much of Sub-Saharan Africa; $237 million to meet our arrearage payments to several multilateral development institutions; and $252 million primarily to provide additional security for U.S. personnel and facilities abroad.

III. The Regions

Latin America and the Caribbean

Mr. Chairman, nowhere has the dynamic linkage between foreign assistance and U.S. national interests -- and between democracy and economic opportunity -- been more dramatically illustrated than in Latin America and the Caribbean. The past year has provided strong evidence that democratic development, and the rejection of the Communist left and the far right, are the keys to enduring peace and improving standard of living for all.

Our policy of lending political, economic, and military assistance to pro-democratic forces is working. In so complex a situation, we should look at the record.

In 1979, four of the five Central American countries were undemocratic, but six years have produced dramatic change. Today only Nicaragua remains under a dictatorship -- having traded a tyrant of the right for the tyranny of the left. Only Costa Rica has not changed politically: it remains thoroughly democratic -- though increasingly and justifiably concerned about the threat from the new and heavily armed Communist tyranny next door.

El Salvador is the most dramatic case of progress. As recently as a year ago, many in the United States, in Western Europe and even in Latin America believed El Salvador was caught in an endless war between guerrillas of the left and death squads of the right. But the National Bipartisan Commission on Central America insisted that electoral democracy and political dialogue -- not externally imposed "power sharing" -- would prove a workable foundation for attacking the seamless web of political, economic, social, and security problems. Increased economic and security assistance were necessary to give democracy, reform, and economic revitalization a fighting chance.

Last year demonstrated that President Duarte's course was the route most likely to lead to greater respect for human rights and a better life. The Salvadorans themselves made the point in two rounds of national elections in 1984. And they did it again in a different dimension when a civilian jury found five former National Guardsmen guilty of the murders of the four American churchwomen. Support for this democratic renewal was backed unanimously by the National Bipartisan Commission, by President Reagan, by a bipartisan majority in the Congress, and in Europe by Social Democrats as well as Christian Democrats.

It would be naive to claim that all is now reformed, centrist, and peaceful in El Salvador. But the progress is dramatic and undeniable. And U.S. firmess on principles and on behalf of our Salvadoran friends has had a lot to do with it.

The recent history of Guatemala, as much as that of El Salvador, exemplifies the dangers of basing judgments on stereotypes. The country often ranked as "the most polarized" or with the "least chance of democratic development" has confounded the conventional wisdom. The Constituent Assembly elections seven months ago were not only widely accepted as honest and open, but -- to the surprise of many -- revealed that centrist forces constitute the political majority. It is encouraging that the Guatemalans have moved in this direction almost exclusively on their own.

There is one issue, however, on which considerable controversy still reigns: Nicaragua. While we are promoting democratic reform throughout Central America, the Soviet Union and Cuba are abetting the establishment of a Communist dictatorship in Nicaragua.

If the forces of dictatorship continue to feel free to aid and abet insurgencies in the name of "proletarian internationalism," it would be absurd if the democracies felt inhibited about promoting the cause of democracy.

Peace and economic development in Central America require both the reliability of multi-year funding and the confidence that this long-term commitment will continue to be tied to equity, reform, and freedom. Bipartisan support is essential if the Central America Initiative is to address the Bipartisan Commission's call for a commitment through 1989 to provide --

in a consistent predictable way -- a balanced and mutually reinforcing mix of economic, political, diplomatic, and security activities.

This initiative is designed to use large amounts of economic aid, coupled with policy reform, to eliminate root causes of poverty and political unrest. Much work is already underway. Discussions are taking place with recipient countries concerning macro-economic adjustment. Progress has been made toward economic stabilization. Regional technical training programs will begin in April. We have begun to work with governments and non-governmental organizations seeking to improve the administration of justice. A trade credit insurance program has been set up through AID and the Export-Import Bank. The revival and strengthening of the Central American Bank for Economic Integration is being studied. And we are working to assist in the revival of the Central American Common Market.

The democratic trend in the Andean region has been equally impressive. All five countries have democratically elected governments. But like their Latin neighbors to the north, many of their economies are being seriously challenged.

Ecuador, Peru, and Bolivia, have been particularly hard hit by the recent global recession. Their difficulties have been exacerbated by catastrophic weather conditions, sagging prices for their main exports, and, in Peru, a vicious Maoist guerrilla movement.

These countries deserve our help and it is in our interest to help them. We are proposing a special Andean program principally supported by $70 million in Economic Support Funds to assist these countries in their recovery efforts.

A democracy incapable of addressing major economic problems will be no more permanent than the dictators of the right or left that it has replaced.

We are encouraged that our neighbors in Latin America for the most part are taking the necessary and often painful steps to ensure economic revitalization. They have lowered government expenditures, bringing them in line with government income. They have restricted imports of non-essential goods to save foreign exchange. They have adjusted their exchange rates to reflect economic reality and breathe new life into their export sectors. They have worked with the international financial community to restructure their debts and ensure continued orderly debt servicing. They have reallocated scarce resources even as those resources fell.

The efforts are beginning to show results. The trade balance for Latin America with the rest of the world has improved significantly, recovering from a negative $2 billion in 1981 to an estimated positive $37.6 billion in 1984. Vigorous U.S. economic growth in 1984 created new export opportunities. There also has been growth in real per capita income of about 0.2 percent in 1984 -- not much, but better than the decline of 5.8 percent in 1983 and 3.3 percent in 1982.

The Caribbean Basin Initiative is showing some positive signs. U.S. non-petroleum imports from the region for the first 11 months of 1984 were up 19 percent over 1983. The open U.S. market continues to offer substantial opportunities for the region's exports.

In Latin America and the Caribbean, I believe that the Administration and the Congress have reason to conclude that the policies we have been following the last four years are succeeding. The best option for the next four years is to continue these efforts based on firm, bipartisan support.

The lessons from the recent past and the guidelines for the near future can be condensed into an assertion: The skeptics were wrong about El Salvador, they were wrong about Grenada, and they are wrong about Nicaragua -- and all for the same reasons.

Mr. Chairman, what the Administration and the Congress have learned together in the past provides a mandate for the future. The Administration cannot fulfil that mandate without the active support of the Congress. If you and we do not stand firmly on principle and with our friends, we will both lose. A lack of policy consistency would be a significant obstacle to achieving our national objectives in this region over the next months and years.

Africa

I turn now from the promising developments in Latin America to a region where problems continue to be grave. Africa's desperate economic state is more in the public eye than it has ever been. I would like to devote the major portion of my discussion of Africa today to the economic crisis. In doing so, I do not mean to minimize the relationship between economic development and the national security of African states. Security assistance remains essential for many African countries. States threatened by Libyan adventurism or Soviet-armed hostile neighbors cannot devote the energy or resources necessary to economic development. And economically fragile societies are most vulnerable to subversion and attack.

Our total FY 1986 request for Africa is just over $1.2 billion Of that amount 17% is for military-related assistance, roughly, the same amount as in FY 85. The overwhelming majority - over one billion dollars - is for economic assistance. While the military component is small,it is nevertheless extremely important if we are to continue the programs of logistics support and training that we have started and if we are to provide the bare minimum in the way of defense equipment for our friends facing threats. The proximity of the Horn of Africa to the Middle East and vital oil shipping routes in the Red Sea and the Indian Ocean adds a critical strategic dimension to our interests in creating a politically stable and economically viable environment in the region. Consequently, we are seeking the resources necessary to assist Sudan, Kenya, Somalia, and Djibouti cope with their flat economies and to help Sudan and Somalia counter the very real threats to their security.

In southern Africa we continue to work diligently toward a just and lasting settlement for Namibia based on UN Security Council Resolution 435, for continued change in the repugnant system of apartheid in South Africa, and for the economic and political stability of the region in general. The funds that we are requesting for programs in southern African countries will enable us to strike directly at the causes of the economic difficulties of the region. In southern Africa, as in East Africa, we intend to thwart the destabilizing influence of the Soviet Union and East Bloc by providing economic assistance and by offering an alternative to Soviet and East Bloc military assistance and training. Mozambique has demonstrated a real intent to move away from heavy dependence upon the Soviet Union and toward a position of true non-alignment. The small MAP and IMET programs for Mozambique are of particular importance in encouraging this process.

In West Africa we have recently seen the spread of both the effects of the drought and long-term economic stagnation and Libyan adventurism. Our assistance is targeted against both the near-term crisis and the long-range effects of the economic crisis.

I would like to focus specifically on the two most urgent crises facing Africa today: famine and economic stagnation. During recent months, untold thousands of Africans have perished. We estimate that some 14 million Africans remain at risk. If they are to survive, they need urgent assistance in terms of food, medical care, and shelter

There is also the broader problem of malnutrition. An estimated 20 percent of Africa's population eats less than the minimum needed to sustain good health. Africa is the only region in the world where per capita food production has declined over the past two decades -- a combination of a drop in productivity and rapidly growing population. Africa's food dependency on outside sources has been growing at an alarming pace, with African commercial imports of grain increasing at a rate of nine percent per year during the past twenty years.

In addition to the current severe food crisis, Africa's disappointing economic performance has made it difficult for most African countries to service their debt, propelling many countries from one financial crisis to another. The economic crisis has required that African nations regularly seek debt rescheduling. Ten of the fourteen Paris Club reschedulings in 1984 were for African countries.

The United States has mounted an unprecedented campaign to provide both economic and emergency food assistance to Africa In this effort, we have not allowed political or ideological differences with any government to weaken our determination to direct assistance to those in need. Since October of last year, we have committed more than $400 million to send over one million tons of emergency food and other types of humanitarian assistance to Africa. If we add our regular AID food programs, then our total food assistance for Africa is even larger -- almost 600 million dollars thus far this fiscal year. Our current request for $235 million in supplemental emergency funding for Africa will bring total food and emergency assistance this year to over $1 billion. I think we can be justifiably proud of what we have been able to accomplish in such a short period of time.

Equally impressive has been the direct response of the American people and the private sector. Through generous contributions to private voluntary agencies, many thousands of additional lives have been, and continue to be, saved. Volunteers for these agencies are directly involved in distributing food, medicines, clothing, and shelter and caring for drought victims in the most remote parts of Africa, enduring extreme hardships and even risking their own lives. Such humanitarian assistance is in the best tradition of America and the values for which America stands.

Public attention has focused on the immediate drought crisis, but it is apparent that Africa's economic difficulties have a profound origin that goes back many years.

Drought has aggravated the problem, but is not the principal cause of Africa's economic crisis. Many of the African governments recognize that past policy failures have contributed to the current economic crisis. While we seek to address the immediate crisis, therefore, we must also seek more sustainable solutions to Africa's economic problems. The United States has been in the forefront of those seeking to help African countries move from a statist economic orientation to one which allows market forces to operate freely and which provides appropriate price incentives, particularly to the small farmers. Structural issues which are being addressed include inefficient parastatals, overvalued exchange rates, negative interest rates on bank deposits, uneconomic subsidies to consumers and artificially low prices to producers. In addition to the emergency assistance to meet the drought and famine needs, U.S. economic assistance levels for Africa have increased from $787 million in FY 1981 to over $1 billion in FY 1985; For FY 1986 we are again asking for a total of $1 billion in economic aid. To assist reform-minded governments to undertake desirable reforms, the Administration has established two new programs:

(1) The African Fund for Economic Policy Reform, an program funded with $75 million in Economic Support Funds in fiscal year 1985 has the following main objectives:

-- first, to provide additional support for those African countries which are in the process of implementing policy changes or have indicated a willingness and ability to establish growth-oriented policies; and

-- second, to strengthen the international assistance framework for Africa by improved multilateral and bilateral donor coordination at the country level.

Although this Policy Reform Program is still in its initial stages, preliminary reaction to this new initiative has been encouraging. An increasing number of African countries are beginning to alter in a fundamental way their national economic policies. Above all, the relevance of free market economies as opposed to statist solutions has become clear to African leaders as never before. We are in the process of identifying the first African countries to participate in this special program. In addition, we are asking other donors and international financial institutions to work with us and to provide co-financing for these ventures. I might just add that our perception of the roots of Africa's current economic crisis is widely shared by the international community. We are particularly pleased with the World Bank's latest report on sub-Saharan Africa and its stress on the need for economic reform to reverse Africa's economic decline. The World Bank recently launched its own Special Facility which will provide financial support to reform-minded countries -- a facility which complements and reinforces our efforts.

(2) The "Food for Progress" initiative recently announced by the President is also targeted at achieving policy reform, but exclusively in the agricultural sector. This initiative would use food aid in strategically important African countries to promote reform in the key agricultural sector, stressing market approaches in agricultural pricing, marketing, and the supply and distribution of fertilizer, seeds and other agricultural inputs. One of the goals of the initiative is to supply American food to reform-minded countries on a multi-year basis. The sale of the commodities on the local economies

would provide resources for the governments to use in supplying needed incentives and inputs to the farmers while easing the effects on urban consumers of moving toward a market economy. The details of this proposal, including funding levels and sources, will be transmitted to the Congress shortly.

Near East and South Asia

One of the most important foreign policy goals of this Administration is to help achieve a lasting peace between Israel and its Arab neighbors. There are no quick and easy solutions for peace in the Middle East, but our assistance plays a crucial role in furthering the peace process. Israel and Egypt remain our principal partners in the quest for peace, and these two nations would be the largest recipients of our proposed foreign assistance for Fiscal Year 1986. Our economic and military assistance programs are needed to strengthen Jordan's security and economy, both of which are vital to enable Jordan to confront the risks involved in playing a significant role in the peace process. Our relationships with Saudi Arabia and the Arab Gulf States are important elements in our efforts to advance the peace process and, as I will mention later, to protect our interest in the Persian Gulf.

The United States has a commitment to Israel's security extending over three decades. Our security assistance proposal aims to easing the onerous burden Israel shoulders in meeting its defense needs. The Fiscal Year 1986 Foreign Military Sales (FMS) program will enable Israel to maintain a qualitative military edge over potential adversaries in the region. Further progress towards peace depends in part on Israel having sufficient confidence in its ability to withstand external threats but also confidence in U.S. support and assistance. For these reasons, we are recommending a significant increase in Foreign Military Sales on a grant basis for Israel.

The U.S. and Israeli governments agreed last October to establish a Joint Economic Development Group to review economic developments in Israel, the role of U.S. assistance in support of the Israeli adjustment program, and Israeli longer-term development objectives. At a meeting in December, Israeli government officials presented the annual White Paper outlining Israeli economic objectives and assistance requirements for the remainder of this fiscal year and for FY 1986.

Our security assistance is a reflection of the U.S. commitment to Israel's security and economic well-being. In addition, we have indicated our willingness to provide extraordinary assistance in support of a comprehensive Israeli economic program that deals effectively with the fundamental imbalances in the Israeli economy. Without such a reform program, however, additional U.S. assistance would not resolve

Israel's economic problems but merely help perpetuate them. Moreover, without economic adjustment Israel will become even more dependent on U.S. assistance in the future. The Israeli government has made some considerable progress to date in developing an adjustment program. But further progress is necessary if their program is to put Israel back on the path of economic health and additional U.S. assistance is tc serve a useful purpose. Accordingly, the Administration intends to hold open for the time being the amount and form of ESF which we will be requesting from the Congress pending further discussions with Israel and further evolution of its stabilization program. Our discussions will continue to focus not only on short term stabilization measures, but also on Israel's longer range development objectives so that Israeli citizens can have confidence in a brighter, more prosperous future. We agreed during Prime Minister Peres' visit last October to work together to promote foreign investment in Israel, particularly in the high technology area where Israel has a comparative advantage. Both governments are examining existing programs and frameworks which might help to improve Israel's investment climate and attract venture capital from abroad. It is clear that in Israel's case -- as in other countries -- mobilizing both domestic and foreign venture capital depends on an atmosphere that encourages private enterprise, appropriate tax structures and market pricing policies. Private sector initiatives hold the greatest promise for helping Israel achieve its development goals, and we are encouraged by the interest that has been generated in both countries. Our real objective is to support Israel's own efforts to seize the opportunity to establish the fundamental conditions for economic growth in an age of new technology.

The Camp David accords and the Egyptian-Israeli peace treaty remain the cornerstone of our Middle East peace policy. Egypt has demonstrated its firm commitment to those accomplishments by repeatedly refusing to disavow them as a price for resuming its historic leadership role in the Arab world. Our assistance helps ensure that Egypt will remain strong enough to continue to resist the pressures of radical forces which seek to undo what has been achieved. Egypt remains an important force for moderation and stability not only in the Middle East but also in Africa, where it plays an important role in helping African states deter Libyan adventurism. Egypt's ability to continue this deterrent role depends heavily on our assistance. The FY 1986 Foreign Military Sales Program has been increased to enable Egypt to continue replacing obsolete Soviet equipment and remain a credible deterrent force in the region.

Another major U.S. interest in the Middle East is to maintain free world access to the vital oil supplies of the Persian Gulf now and in the future. The Persian Gulf countries produce over 25% of the free world's oil supply. Through our assistance, we help to improve the security of our friends in this area. Oman is cooperating closely with the U.S. toward our common goal of maintaining security and stability in that vital area and freedom of navigation through the Strait of Hormuz; Oman's agreement to permit access to its facilities represents a key asset for the U.S. Central Command. Although not recipients of U.S. financial assistance, the other Gulf states and Saudi Arabia, as members with Oman in the Gulf Cooperation Council, have shown the will and the ability to defend themselves against encroachment of the Iran-Iraq war. The Administration is embarking on a comprehensive review of our security interests and strategy in the area, focusing on how our various programs in the security field complement ourefforts in the peace process and contribute to the general stability of the region.

In North Africa we have longstanding and close relationships with Morocco and Tunisia as firm friends and strategically located geo-political partners. Morocco, with whom we have transit and exercise agreements, and Tunisia are both in difficult economic circumstances. Our assistance program in Morocco, in concert with other donors, is designed to help the Moroccan Government as it implements necessary economic reforms. We have expressed to the Government of Morocco our disappointment over the unwelcome development of the Libya-Morocco treaty of August 1984. Qadhafi's aggression against neighboring states and his undiminished support of terrorism and subversion worldwide are continuing causes of concern. We have registered these concerns with the Moroccans and told them that we discount the possibility that association with King Hassan could influence Qadhafi constructively. Despite differing views on how to deal with Qadhafi, however, the economic and political rationale for this assistance to Morocco remains; indeed it is stronger.

South Asia

A major foreign policy objective in South Asia is to obtain a negotiated settlement to get the Soviet Union out of Afghanistan so that the refugees can return and Afghans can exercise their own sovereignty and independence. In our efforts to achieve this goal, it is vital that we help ensure the security of Pakistan in the face of Soviet intimidation. Our six-year assistance program for Pakistan serves this goal. It is designed to support Pakistan's economy and its development and to help strengthen its defenses through provision of military equipment and training.

The U.S. has several important goals in South Asia. We seek to prevent conflict among the major states of the region; to help the region develop economically, and to foster the success of democratic institutions. India, the largest democracy in the world, plays a pivotal role in the peace and stability of the region. Our development assistance program for India will concentrate on more sophisticated research and higher technical training, building on India's strong scientific and technological base. Our assistance programs in Bangladesh, Sri Lanka and Nepal demonstrate U.S. support for the moderate non-aligned policies and economic development of these countries.

Europe

Security assistance proposals for the European region are designed to redress the military imbalance in Europe and counter the increased Soviet military threat in Central Europe and in Southwest Asia. The assistance supports key NATO allies and has the dual result of providing the U.S. with continued access to important military bases and helping these countries modernize their own military capabilities. By so doing, our security assistance sustains confidence in our best efforts commitments which are the foundation of base agreements.

U.S. foreign policy objectives in Spain are to support Spanish democracy, to encourage Spanish movement towards a more open economy, and to contribute to Western defense by assuring continued U.S. access to vital to air and naval facilities in Spain. The security assistance program plays a key role in achieving these objectives.

The Spanish military has assumed a role appropriate for armed forces in a democracy. Our assistance is necessary to help Spain meet its goal of modernization to NATO standards and to provide tangible evidence of the benefits Spain receives as a partner in the Western alliance, as demonstrated by its bilateral relationship with the U.S. as well as its participation in NATO. Our security assistance program thus plays an important role in helping Spain to consolidate and strengthen its new democratic institutions.

Prime Minister Gonzalez' government has taken politically difficult steps to open Spain's traditionally protectionist economy to market forces. This decision was particularly courageous since Spain's economic austerity program has been accompanied by high unemployment. But as a result, the Spanish economy has shown impressive improvement in 1984. Its economic program would have placed a much more onerous burden on the Spanish people without our support. The security assistance program helps in modernizing the economy through scientific and technical exchanges and permits Spain to continue its economic recovery without jeopardizing its military modernization.

Our objectives in Portugal are similar to those in Spain. Portugal is striving to consolidate its 10-year-old democratic institutions while it assumes an expanded role in western political and military structures. It is also pursuing a demanding economic austerity program in an attempt to reform its troubled economy, which is the second poorest in western Europe. The U.S. security assistance program assists Portuguese economic development efforts and permits Portugal to continue its program of military modernization aimed at assuming expanded NATO defense responsibilities.

U.S. security assistance to Portugal therefore provides both real and symbolic support for Portugal's attempt to strengthen its democracy and free-market economy. It provides a cornerstone for Portugal's attempts to play a more effective role in NATO. It also serves to meet the assistance goals to which the U.S. is committed under the 1983 agreement.

Our security assistance to Greece and Turkey contributes to important strategic policy objectives on the southern flank of NATO. Turkey's position between the Soviet Union and the Middle East and proximity to southwest Asia make it a natural barrier to Soviet expansion into the Middle East and the Persian Gulf. The Soviet invasion of Afghanistan, the Iran-Iraq War and the disintegration of Lebanon highlight the importance of a politically stable and militarily credible Turkish ally in this disturbed region. We also benefit from our military relationship with Turkey by our use of extremely valuable military and intelligence facilities. The United States accordingly has a compelling interest in enhancing Turkey's ability to meet its NATO commitments and deter potential aggression in Southwest Asia through provision of security assistance.

Our interests are not confined to NATO security objectives. We have sought the cooperation of the Turkish Government in promoting a settlement on Cyprus. The Turkish Government accepted and supported the U.N. Secretary General's initiative. We are now working with all the parties to ensure that efforts in the wake of the recent summit in New York to reach a settlement between the Government of Cyprus and the Turkish Cypriot community can move forward. Accordingly, we believe that any attempt at one-sided efforts to impose conditions regarding Cyprus on security assistance to Turkey would not only be unwarranted but would set back the prospects of a settlement on Cyprus.

On the economic side, Turkey has taken far reaching and courageous steps to stabilize and liberalize its economy. U.S. concessional aid to Turkey is directly and constructively related to Turkey's efforts to create a freer and more sound economy.

We are also seeking a substantial level of security assistance for Greece. While we have our differences with the Greek Government, we see those differences in the context of a relationship between two democratic allies who share important interests. We recognize Greece's strategic importance in the eastern Mediterranean. We derive important benefits from our military facilities. Our security assistance program is an important element in our relationship with Greece. It is exceeded only by our request for Israel, Egypt, Turkey and Pakistan.

East Asia and Pacific

Foreign assistance is an investment in the future that can benefit both recipient and donor. This is particularly evident in the East Asia and Pacific region where the returns paid on our foreign assistance investment have been enormous. For some 20 years East Asian countries have achieved higher economic growth rates than any other region of the world. They have achieved these remarkable results principally by relying on the dynamism of free market systems. As a result of this rapid economic growth, the region now accounts for more of our foreign trade than any other region of the world. Since former aid recipients in the region have reached the stage of development where they no longer need bilateral aid, and in some cases have become aid donors themselves, East Asia and Pacific countries now account for only a small portion of our worldwide assistance programs despite the vital importance of the region to the United States.

In spite of this generally bright picture, the region still has pressing economic and security problems that we must confront. The Administration's FY 1986 foreign assistance request for East Asia and the Pacific that addresses these problems totals approximately $818 million. The requested economic assistance of $335 million will be concentrated in the three largest members of the Association of South East Asian Nations, the Philippines, Indonesia, and Thailand. The bulk of the $483 million requested for military assistance will go to deter direct military threats to Korea and Thailand and to enhance our close military relationship with the Philippines, a treaty ally. We also propose modest assistance programs in other ASEAN countries, in Burma, a country that has become increasingly important to our anti-narcotics efforts, and in the islands of the South Pacific. I would like to highlight some of our specific concerns.

The Philippines has passed through difficult times that have adversely affected the economy. The government has begun to take corrective measures and has concluded an economic stabilization agreement with the International Monetary Fund. These actions are showing signs of progress. The Philippine situation is further clouded by a growing armed insurgency by the New People's Army, the military arm of the Communist Party of the Philippines, which has been able to exploit the country's political, economic, and social difficulties. The revitalization of democratic institutions, the establishment of long-term growth through structural economic reform, the maintenance of our vital security relationship, and the successful resistance to a communist takeover of the Philippines are intertwined. Our integrated economic and military assistance program is designed to support all of these objectives.

Like the Philippines, Thailand is a treaty ally of the United States. It is also a front-line state that faces serious security challenges caused by Soviet supported Vietnamese aggression in neighboring Cambodia. Our security assistance to Thailand supports the government's efforts to improve social and economic conditions in the war-affected Thai-Cambodian border areas that have experienced a large influx of refugees because of continued brutal attacks by Vietnam. Our military assistance supports the modernization of Thailand's defense forces to provide a deterrent to further Vietnamese aggression.

The specific efforts of the Philippines and Thailand are reinforced by their membership in ASEAN, which represents the best hope for peace and stability in Southeast Asia. Consistent with our strong support for ASEAN and in recognition of the importance of our relationship with Indonesia, we have also proposed economic and military assistance for that nation. Indonesia has continued to make good progress in its development program and maintaining sound economic policies in the face of an international recession. Our military sales to Indonesia have enhanced our common strategic interests in

Southeast Asia. We also plan to continue the ASEAN regional technical assistance program. In another ASEAN member, Malaysia, where U.S. private investment continues to be a major catalyst of economic growth and development, the government has expressed interest in continued defense cooperation with the United States within the context of that nation's non-aligned status. Malaysia has played a constructive role in international affairs and has forcefully advanced ASEAN's strategy to bring about a withdrawal of Vietnamese forces from Cambodia. We propose to continue our modest military assistance program in support of these efforts.

Another important U.S. treaty ally is the Republic of Korea. The prevention of North Korean aggression against South Korea is indispensable for peace and stability in the region and important to our own security. So far we have been successful in deterring aggression and preventing a recurrence of hostilities on the Korean peninsula. To maintain our support for the U.S.-ROK alliance we propose to continue an FMS credit program that will permit the ROK to improve the capabilities of its combat forces, many of which are stationed with our own forces along the DMZ and would operate with us under a joint command in time of war.

Multilateral Development Banks

Thus far I have stressed the vital role American bilateral assistance plays in promoting the security and stability of the developing world. As I am sure each of you appreciates, this task is far too great for one country to attempt to do alone. Fortunately, we do not have to. Our friends and allies in the industrialized world devote a considerable amount of their resources to the task of promoting the development process, which in turn yields dividends in the expansion of economic trade and strengthening of democratic institutions. These resources are becoming too scarce to allow for inefficient use of any kind. A coordinated approach among donors has always been desirable. It is now critical.

A principal tool available for such coordination is, and will continue to be, the pooling of a portion of our economic assistance through the multilateral development banks (MDBs). MDB lending remains a significant and growing source of investment capital for developing countries. In FY 84, MDBs together committed $22 billion in new loans. That a lending program of this size was sustained with a U.S. paid-in contribution of $1.3 billion testifies to the advantages of using the MDBs to share the burden of providing aid. The U.S. benefits directly from the MDB's' efforts to promote strong and sustained progress in the developing countries through increased sales of U.S. goods and services. Indeed, a significant portion of the U.S. trade deficit can be attributed to the decline in purchases by debt-troubled developing countries, a decline which appropriate development assistance can help reverse.

While valuable as a source of development finance, the MDBs play an equally critical role by providing sound market-oriented economic policy advice to their borrowers. They also impose financial discipline on the development objectives of their clients. These institutions are devoting increasing resources to projects and programs designed to support private enterprise in the developing world. For many years, the World Bank's special affiliate, the International Finance Corporation, has focussed on the specific needs of the private sector. The regional development banks are beginning to follow the World Bank's lead. The strengthened commitment on the part of these institutions to private enterprise may prove to be one of the most important factors in supporting a successful development process.

We are convinced that the MDBs have a crucial role to play in advancing world-wide growth and development, and increasing the private sector contribution to that process. We thus consider our participation in them a necessary complement to our bilateral assistance policy. In recent years this Administration, acting in close consultation with the Congress, has sought to reduce the cost to us of providing an effective level of support to these institutions, while maintaining U.S.

leadership. We have been successful in negotiating overall replenishment levels which we believe are adequate to the needs of borrowing members but also take into consideration our budgetary constraints. Maintaining U.S. leadership, however, depends on our meeting these obligations in a timely manner. I, therefore, urge Congress to support fully both our FY86 request for $1.3 billion and our FY85 Supplemental request for $237 million.

Summary

In closing, Mr. Chairman, I would like to emphasize the basic theme of this year's budget presentation. We have a responsibility to stick with the policies that have worked or begun to work. Quick fixes, pulling back from the fray, or hoping for diplomatic miracles are not responsible options. But if we stand together, firmly, predictably and realistically defending our principles and our friends, and do so in the steadfast manner the problems require, then we can prevail. Our FY 1986 budget request is designed to do just that.

GROWING DEFICITS DANGEROUS

Chairman **Domenici**. There are a number of Senators who have questions and have expertise in some of the areas you have discussed. We have with us the chairman of the Foreign Operations Subcommittee on Appropriations, who has most of the international funding in his jurisdiction. So they will ask some questions on specific issues, and if they do not, I will ask them at the end.

Let me just ask you a question with reference to the deficits. I know that your broad experience, prior to assuming the Secretary of State's position, qualifies you to share with this committee your views about the danger of the growing American deficits.

I think that we are very fortunate that our economy is growing and prospering. We have some areas of the economy that are having trouble, and you are aware of those even while we are having overall growth. I am told by some members, while I do not think this attitude is as prevalent in the Congress as some might think, that we do not have to take any bitter medicine, or have any sacrifice, because things are going so well.

I do not share that view at all. I think the bell is going to toll here sooner or later, especially when we are dependent upon huge amounts of foreign money. We do not seem to get our interest rates down. The real interest rates are still way out of line with previous history, and the deficits continue to grow. If we leave the current policy of our Government alone, I think you are well aware of the fact that next year we will have a $230 billion deficit, and even with continuing economic prosperity, it will go on up, and be close to $300 billion 2 years from now.

I would appreciate it, and I am sure the committee would, if you would tell us whether or not you think this attitude is dangerous, whether or not we ought to do something significant about it, or whether you think everything is all right, leave it alone.

DEAL WITH DEFICIT NOW

Secretary **Shultz**. Mr. Chairman, I think it is a very serious problem for this country, and it is something that we simply must address. I see the issue in terms of four interrelated variables, you might say, and identifying them and their relationship, the one to the other, suggests the nature of the problems that we face in the years ahead.

In addition, I think there are some strictly domestic points that I would make. First of all, obviously, one variable is the big deficit, and there it sits. If we do not do something about it, as you suggest, it is unprecedentedly large, and it, unless you take action here along the lines of the President's proposals, or some proposals to deal with it, the growth is simply startling.

LARGE FLOW OF FUNDS FROM ABROAD

Second, and I think related to that, we see that the U.S. economy has been turned on, and the vitality in this economy is just astonishing. We see it in the form of the investment boom. We see it in the form of all of the new enterprises that people want to form. In a sense, the so-called "supply side" ideas are working. However, we are not financing our investment through our savings, and if you do not have savings, you cannot have investment. It just follows as night and day.

We are financing the investment boom that we have by very large flows of funds from abroad, and that is a necessity in a sense because the Federal deficit is taking such a huge bite out of the national savings, that the U.S. economy is generating. So, we have a process that is needing a huge flow from abroad in order to support our investment.

If that flow slows down, as I think it very well may do at some point, then where are we going to finance the investment? And if we do not have the investment, then we are seriously impeding the progress and growth of the U.S. economy and its fundamental health.

DOLLAR AT SKYROCKETING LEVELS

The third thing that is happening is that because of the large flow of funds, we see the dollar at skyrocketing levels. There is no reason to think that the dollar is not being priced, so to speak, accurately, in world financial markets. There is nothing to be said for intervention, or it is not misaligned. It is simply that the large financial flows mean that the dollar's value is not dominated, as historically it has been, and as you think it would be in a country as large as ours, by the trade account. It is being powerfully affected by these huge financial flows that are separated from the fact of trade.

So the dollar is a lot higher than it would be, if we did not have these financial flows, and in a sense, it was being mediated according to the trade account.

TRADE DEFICIT CAUSED BY HIGH VALUE OF DOLLAR

Now what that gives us is a gigantic trade deficit. I believe that we should be working very hard to batter down protection in other countries, as we are doing, let us say, in Japan, and we have had quite a lot of success with it.

But no one should think that rearrangements in trade relationships are going to have a major impact on this trade deficit. That is caused by a different matter. That is caused by the high value of the dollar. In turn I think the trade deficit and the fact that what it implies, the very high value of the dollar, prices a lot of our goods out of markets they would normally be in, means that we will have, over a period of time, an impact on the structure of our economy that is not particularly desirable.

So I think that is a problem. Now beyond looking at it in terms of those four interrelated variables, I think there are some other aspects of this that will come back to haunt us. One is that in dipping in to the world savings pool, to the extent we are—that is, we are financing our investment out of, not our own savings, but out of the savings of others, we are putting a big call on that world savings pool.

RELATIONSHIP OF DEBT TO GNP GROWING

And the development needs of others are intense, as we know, and I think that is going to be highlighted for us. Beyond that, we see in our own country, that our debt, in its relationship to GNP, has been growing at a rapid pace.

As you know, following World War II, and then with a blip, and the Vietnam war, the basic proportion of debt to GNP has been declining, because our GNP has grown so fast, and our deficits have basically been very small in comparison to the GNP.

But more recently, that trend has reversed, and it has been going up at a pretty good clip. When you consider that, and you consider the size of the interest payments on the debt in our budget, as you pointed out, what you do to financial markets, I think, having been a participant to some extent in my private days, people look at this picture, I am sure, and they say to themselves, "Well, what kind of pressures does that picture generate?" Well, it is bound to generate pressures on the Government to do something about these big numbers, and on the Federal Reserve which has taken a different view here. But nevertheless, over the long term, people fear that it is going to have an effect on them to finance this huge bill that we are putting up for ourselves, and of course that generates fears of inflation.

I think you might say, contrary to what some say, that it is not correct to compare the high interest rates, nominal interest rates on long-term obligations with current rates of inflation, and then say long-term, real interest rates are at unprecedented highs. I would not put it that way myself.

I would say that the big spread between current inflation and long-term rates of interest is a statement by the market, that they doubt that inflation will stay down, given these pressures that I have identified.

So all of these reasons lead me to the conclusion that it is essential to come to grips with these deficits and bring them under control.

And I would add one further thought. The call of Government on the resources of the country, leaving aside deficits, is an important ingredient in the encouragement of the private sector, and in the growth and creativity and the resiliency of our economy.

So to my way of thinking, the effort to cut this deficit, by cutting spending back, is the way to go, and that is the way to maintain the basic resiliency and creativity that we still have in our economy.

Well, this is a long-winded way around the barn, Mr. Chairman, but you asked me to give you my view and why, and so I have tried to do it. But I do feel strongly about the point, and it is not just a kind of gross reaction. I think I have at least thought it through, to my own satisfaction, as to why the problem is a real problem.

Chairman **Domenici**. Thank you very much, Mr. Secretary. Senator Johnston.

FMS FUNDS FOR EGYPT

Senator **Johnston**. Thank you, Mr. Chairman.

Mr. Secretary, I noticed that with respect to Egypt, that FMS funds go from $1.175 billion in 1985 to $1.300 billion in 1986. Now, I know that Egypt was given some assurances as part of the Camp David accords. I also see in your statement, that Egypt is being a credible deterrent force in the region, and you refer specifically to Libya.

Now, am I not correct, that really, the reason we are giving Egypt all this money is not so much because they need it, because their confrontation state was always Israel and now Israel is no longer a confrontation state with them—but are we not giving them this FMS because of Camp David, and of our need to be true to our obligation there?

Secretary SHULTZ. Well, we do have an obligation derived from Camp David, but beyond that, I think that Egypt does concern itself about its security situation.

Senator Johnston. It would seem to be whom?

Secretary SHULTZ. Well, the Libyan situation is a very considerable threat to them, and other threats generated in the region are of concern, and they have a responsibility in that part of the world.

Senator JOHNSTON. How can Libya, being a very small country, be a threat to Egypt?

Secretary SHULTZ. Well, Libya has a lot of money. It has a declared, practically a declared terrorist intention, so it has a subversive intent in the region, in Chad, in Sudan, and elsewhere, and Egypt is a kind of a balancing force, potentially there—in fact and potentially.

Senator JOHNSTON. Well, when I look at this budget, when you take out Eximbank, the budget has really grown quite a bit since 1980. Foreign assistance grants have grown by 632 percent. Foreign military sales by 153 percent. Economic support by 78 percent. USIA by 87 percent, et cetera, et cetera. And I know much of that is needed. And you look at this big item of Egypt. What it tells me is that Egypt is following Israel because of Camp David, rather than because of the needs of Egypt, which makes me say that maybe we ought to get our sharp pencils out, and see how much of this Egypt really must have for its own security.

Now the next item——

Secretary SHULTZ. I think you will find the Egyptians feel, and we have gone over this with them, that the needs are there, and of course, a lot of their aid in the past has been in the FMS debt basis, and a lot of that is coming due now, and it constitutes a considerable strain on their own balance of payments.

But Egypt is a big, important country in the region. It is shifting over essentially from a Soviet-supplied set of military equipment, and it is a costly business.

UNITED STATES SHOULD SUPPORT PAKISTAN

Senator JOHNSTON. Mr. Secretary, as you may know, I and three of my colleagues just got back from India and Pakistan. The "Paks" feel pretty much endangered by the Soviets. I wonder, can you give me any difference in the threat that Pakistan ought to feel, than that which Afghanistan might have felt back in 1980?

In other words, is Pakistan in your view—is it a real possibility of an invasion target by the Soviet Union?

Secretary SHULTZ. Well, I think it is very important for us to support Pakistan in their economy, and in their capacity to defend themselves, and give the sense of support from the United States so that they do not become a target, that there is a deterrent capability there.

In addition, as you know from your visit, there are all too many instances of raids into Pakistan from Afghanistan, I suppose in retaliation to what the Soviets perceive as Pakistani support. Certainly the large refugee camps in Pakistan of Afghans are a huge burden on the Pakistans and constitute a form of support for the Afghan resistance.

Senator JOHNSTON. Well, Mr. Secretary, I very much agree that we should support Pakistan. It seems to me there is a little lack of clarity with respect to what our support with respect to the "Paks" will be I believe that they feel that, in the event of an attack by the Soviet Union, we will come directly to their aid. At least they say that.

We used to have a treaty with the "Paks," as you know, which we no longer have, and it seems to me that we should make more clear our support. Maybe it is intentionally being fuzzed over a bit. If so, I can understand it. But if we really intend to support the "Paks," I think we need to make that a bit clearer, because it seems to me it is not clear in that region of the world.

It also seems to me, that there would be no difference in an invasion of Pakistan than an invasion of Afghanistan, in terms of the quality of the act, the degree of outrage. It might be more difficult to invade Pakistan. I am sure it would be. But it would be no difference, in terms of the quality of the act. But the bonus would be much greater: a warm water port on the Mediterranean. Would you speak to that.

Secretary SHULTZ. Well, the Soviet effort over a long history has been to move down in to the Middle East, and in to that region of the world, and so that is something they are always striving for. They have not attained it. And to me, it is essential to help those who are there, and who are ready to resist it do so. And I think all over the world, people who will fight for their own national independence, and fight for freedom deserve our support.

And that is true in Afghanistan, that is true in Cambodia, that is true in Nicaragua, and certainly it is true in Pakistan.

Senator JOHNSTON. Well, there is no fuzziness in our support to Pakistan, is there?

Secretary SHULTZ. No, sir.

REEXAMINE AID PACKAGE TO PAKISTAN

Senator JOHNSTON. Finally, Mr. Secretary, of course anything we do for Pakistan is not appreciated by the Indians, who see aid going to Pakistan as not something to defend against the Soviet Union, but something to be used offensively against them. We tried to assure them, and we met with all the Indian players, including the Prime Minister and the Secretary of Defense, and the Foreign Minister, and we would try to assure them on that question. And they would say, "Well, what about the Harpoon missile?" "How are you going to use the Harpoon missile against an attack over the Khyber Pass?" And we were at a loss to understand that. I believe we should reexamine our aid package to Pakistan, so as not unnecessarily to exacerbate our problems with the Indians.

I think if we are going to support Pakistan—and I think we should—I think we ought, very carefully, to calibrate what we give them, so as not to excite the Indian that it is to be used against them.

Secretary SHULTZ. We have a, I think an important moment here, in India, with the new Prime Minister, to develop our relationships with the Indians through him, and we need to be sensitive to their concerns, while also giving full support to Pakistan. And we need to work hard at explaining what we are doing and why we are doing it, in the most reassuring way that we can. Certainly, our aid to Pakistan is in no way aimed at India, and I am sure they know that, but we have to keep examining what we are doing, and explaining it carefully, and I agree with you on that point.

Senator JOHNSTON. As our report indicates, we feel that—that is, Senators Nunn, Glenn, and Sasser and I, feel that ought to be playing a more active role with respect to India and Pakistan, more active in the sense of being able to defuse the institutionalized paranoia between the two countries about one another, paranoia which exists for good reason. We feel that we can play a much stronger role. Mr. Chairman, is my—my time is up.

Chairman DOMENICI. Yes. It was up a few minutes ago. Senator Kasten.

AMOUNT OF AID TO ISRAEL QUESTIONABLE

Senator KASTEN. Thank you, Mr. Chairman. Mr. Secretary, I am concerned about a number of the same things that the chairman brought up. I think we can look at this situation as a time bomb that is ticking away. The delayed decisions are a problem. Obviously we are going to have to do something with Israel, in terms of both the 1985 supplemental and the 1986 appropriation. We are obviously going to have to do something with Africa and do it soon. And we are obviously not going to be able to accept the administration's proposals on the Eximbank.

We are sitting here with a time bomb about to go off, because the final decisions, particularly on Africa and Israel, have not been made, even though they will have a tremendous effect on the overall budget.

I think that the budget process is going to force us, both the administration and congress to make some of these decisions. As you and I are both aware, if we pass a budget, and then starting to have the function 150 account go over budget, we run in to an almost impossible situation. The end result is that programs in some of the popular areas—I would put the Eximbank as one of them—get funded, and pressure for reductions falls on a number of security assistance programs, base agreement programs, et cetera. This situation just boxes us in.

It seems to me that most of us are now assuming that the fiscal year 1986 number for Israel is going to be in the neighborhood of $1.2 billion.

Is that roughly correct? When are you going to send up a specific number for Israel?

Secretary SHULTZ. Well, first of all, on the question of the President's proposal on Exim funding, I do not know why that should be dismissed. It is a good, important, strong proposal, and so there it is, and we are going to fight for that proposal. So I would not lay that aside quite so easily.

As far as the supplemental assistance, or the economic assistance for Israel is concerned——

Senator KASTEN. We are concerned about both the 1985 sup and the 1986 final number.

Secretary SHULTZ. Right. And I am, too, and I would say that my attitude, and I am sure this is shared in the Congress, is to want to give all the help that will be genuinely helpful to help them solve their problem. And I do not know what the right number is. I do think that it is not quite the time to make that decision, because while they have made a considerable amount of headway—and as I said, I think there have been some very tough things done, and great leadership exercised by Prime Minister Peres. I think there is still some wood to get in the shed, and we ought to work with them a little while longer, to see if these additional things can be done.

ISRAELI AID WILL BE ADDED TO BUDGET

Senator KASTEN. Mr. Secretary, when you do send up your 1986 request for Israel, is it your intention to have that added to the budget totals, will the amount have to be offset by reduction in other programs in the 150 function?

Secretary SHULTZ. There is no way to squeeze those other programs to the tune of what the Israeli number probably will be, so I think it is an additive matter.

Senator KASTEN. How about programs outside of the 150 Account? Is it your intention that this is an add-on to the overall budget, and might break a freeze at that point?

Secretary SHULTZ. Well, I think the chairman has outlined, and Undersecretary Schneider is prepared to give our view of that, but taken overall, we think we make the grade. Now, you dismiss the MX thing. We are not ready to dismiss that. We think that that is an important part of this process.

But certainly, the Israeli number, whatever it turns out to be, in our view will be additive to what you see there. As a technical matter, that is the way it will be submitted.

AFRICAN FAMINE RELIEF

Senator KASTEN. Added to the total. Let me just quickly switch subjects. As you are aware, Senator Kennedy and I have introduced emergency legislation for African famine relief. A number of the people at the table here are cosponsors of that legislation, and I think, frankly, we are developing a certain amount of support.

As you know, the idea was not to argue so much about the numbers, but to get to work and start to provide the assistance. However we provide for administration and Congressional oversight as well.

We have put together the urgent supplemental, as you know, in an unusual way, and we suggested such sums as may be necessary for food for disaster assistance, and for refugee assistance.

We made this recommendation in order to give the administration flexibility. I wonder if you have had a chance to look at this legislation, and if so, what are you views on it?

Secretary SHULTZ. Well, I think you have developed an interesting and creative approach to a problem, and it is true, that it is hard to estimate exactly what will be needed. We do not want to either way overdo it, or, we do not want to be skimpy when it comes to a problem of hunger. So I think you have developed an approach that, at least I find a very good one, and we would like to work along with you on that. I do have this one added comment, and it is something that you and I have discussed, and I have the feeling you agree with it. And that is, we cannot lose sight of the fact that the hunger in Africa is not attributable entirely, by any means, to the drought.

And so when we do things about it, we should have our eye on the cause as much as we possibly can, and be trying to get some shifts in the way things are organized, the price, and so forth, so that the problem will begin to get cured. Otherwise, we will just be in an unending provision of food from the United States, and other countries, to Africa.

USE ALL FOREIGN ASSISTANCE FOR OUTLINED GOALS

Senator KASTEN. Mr. Secretary, I agree with you, and that relates to the last statement that I would like to make. Your prepared testimony referred to the African policy initiative as if that program had been approved and as if it was going forward. In fact, that program has not been authorized, nor has your request for $75 million been appropriated. Frankly, I am not sure that the Congress is ready to either authorize or appropriate yet another program.

It seems to me that Congress has made it clear that all foreign assistance used for the kinds of goals and purposes that you just outlined: to end cheap food policies, to encourage private initiative, to get rid of some of these overburdening government bureaucracy, as well as the waste and the fraud, and to end the inefficiency in some of the distribution systems.

I believe that Congress is committed to use all of our foreign aid programs for the goals that are outlined in the talking points in favor of that special new fund.

Do you not agree, that to the extent possible, our entire foreign aid program—security assistance, economic assistance, et cetera—should be to encourage the kinds of policies that you are talking about? We do not need to set up a separate fund in order to meet these specific goals but we ought to be doing it with all of our programs all across the world?

Secretary **Shultz**. I agree that we should be trying to do it to the extent possible with all of our programs. We feel, in the case of Africa, that having some identified amount of money that can be a special kind of tool, will be helpful to us.

And I think it is worth noting, that the World Bank report of last September put forward, most interestingly, a similar kind of philosophy, and is starting to implement that. So I think we are seeing—I do not say the World Bank Program is an outgrowth of our thinking, but we may have had some effect, and so I think we are beginning to see something of a multiplier there.

Senator **Kasten**. Thank you, Mr. Chairman.

Chairman **Domenici**. Senator Riegle.

REPORT ON U.S. INDUSTRIAL COMPETITIVENESS

Senator **Riegle**. Thank you, Mr. Chairman. Mr. Secretary, as you know, President Reagan last year named a Commission On Industrial Competitiveness, and they completed their work last week and made formal their recommendations to the country and to the President. And I do not know if you have yet had a chance to either hear the presentation or to read what they have in their summary document, but I think it really is an outstanding piece of work. It was done over a long period of time by a number of serious people, all of whom were selected by President Reagan to serve on this Commission.

I want to read to you, briefly, two conclusions that they have presented here, and then I would like to get some reaction from you to them. It relates to the problem of our economic standing vis-a-vis the rest of the world, and I heard you commenting on the trade matter a little earlier.

U.S. COMPETITIVE PERFORMANCE DECLINING

I want to quote now directly from the President's Commission's report, and it says as follows:

> Our nation's economic leadership, both at home and abroad, faces strong challenges from international competitors. We have failed to respond adequately. Our ability to compete in world markets has been gradually eroding. Even our lead in high technology is slipping.

This report contains compelling evidence of a relative decline in our competitive performance. I might say in here that they list ten areas of high technology over a 15 year period, where our relative position in those 10 areas in the world trading system has, in eight of those ten has gone backward.

In other words, we have lost a degree of competitive strength in those areas, and that is all outlined in this report. But here is one of their specific recommendations, and again I quote directly.

CREATE DEPARTMENT OF TRADE

It says:

> Create a Department of Trade and make trade a national priority. International competitiveness requires a well-integrated policy-making process that places trade considerations on a par with domestic and foreign policy issues. The President should pursue initiatives to improve the trade policy-making process and seek Congressional advice and enactment of legislation establishing a Cabinet level Depart-

ment of Trade. The goals of establishing a single department are to enunciate trade policy with a single strong voice, to eliminate duplication and overlap, and to establish a more effective coordinating mechanism for balancing the needs of trade with other domestic and international policies.

Now by inference, I think they are plainly stating that they feel that there is some measure of duplication and overlap now, that they think would be resolved if we could go in the direction of a trade department.

Does that sound like a reasonable approach to you, and is this something that the State Department, in your view, could endorse and support, and help make happen?

Secretary SHULTZ. I know the question of a Department of Trade, that is being discussed within the Administration, and as far as I know, the President has not decided whether he will resubmit the bill that did not go anywhere in the Congress last year.

So I will await the President's decisions. I have made my own views known to him.

Senator RIEGLE. Can you share those with us, or——

MANY INTERESTS AFFECTED BY TRADE

Secretary SHULTZ. Well, I think I will only say this: That I think the reason why so many voices are raised within the administration, or, within Congress, why there are so many different views expressed about trade, is that there are a great many interests affected. There are a huge variety of producer interests that are always affected. It is always especially difficult to get the consumer interest up where it gets paid attention to, but in the long run, the consumer interests are extremely important to get in to the picture.

So I do not think that creating a department will, or should mean, that those great varieties of interests are not heard in this.

I believe in the history of this legislation, or this matter, it was in the State Department, under the leadership of Cordell Hull, that the reciprocal trade agreements approach was developed, and the first act passed. And then we had a succession of trade rounds to reduce the protection that had been so debilitating for ourselves, and the world economy during the 1930's. And at some stage, I think back around the start of the Kennedy round, although my memory may not be quite right, but along in about there somewhere, this trade policy and negotiating function was taken out of the State Department, and it was moved in to the Executive Office of the President.

And the reason was that it was felt that, given the fact that many departments of government have an interest and a stake here, it would be a good idea to put it outside of any department in the Executive Office and let it be coordinated there. Maybe people also did not like the State Department. I do not know. But I think that was the principal reason, and that reason still does obtain. But I do not wish to take a position on the departmental matter.

I do think, however, that if you take a matter like U.S. competitiveness, or our large trade deficit, that you are not going to cure either one of those problems by creating a new department in the government.

Those problems, which are real, need to be responded to in a totally different way, and I will submit to you, that when we have as much of our investment activity as we do right now, financed out of savings from abroad, we are putting that investment activity at some jeopardy and we need to focus on that.

EQUITY MONEY FLOWING OUT OF COUNTRY

Senator RIEGLE. But if I may say, one of the reasons why that is occuring, with the trade deficit now at $130 billion and rising, by some estimates, to $150 billion this year, we have a hemorrhage of capital out of this country because we are paying for all those goods. That is, in a sense, equity money going out, because we are buying something, we are taking title to whatever the good is, a TV set or a car, or whatever it happens to be. And then the foreigners are lending us the money back. So in a sense, we are getting the money back, but we are getting it back as a debtor rather than as a creditor, which is the way they are receiving the money from the other end. They are not proposing this as a single remedy. They have a series of remedies. I just picked out that particular one because it relates to what you were referring to earlier.

But with the trade deficit at that level, and rising, what is the State Department then prepared to offer as an approach to turn this thing around? Rather than to simply say, "Well, eventually, the dollar will come down and that will solve the problem." The trade deficit started, by the way, when the dollar was down.

There are many people that think when the dollar comes down, the trade deficit is not going to go away. But what is the State Department doing now, that the level has reached what I think is genuinely a crisis-type level. Most people think it is.

KEEP MARKETS OPEN

Secretary SHULTZ. I think the problems of keeping markets open are important to keep working on, and we support efforts to keep markets open, and to start a new trade round, and to open Japanese markets, and so forth. All of those things have the full support of me and the State Department.

I do not think that the large trade deficits that you referred to are curable by measures of that kind, even though I think those measures are very important to keep after. This huge trade deficit, I think, is a result of the level of the dollar, and the level of the dollar, in turn, is a reflection of these huge financial inflows, and so if you want to do something about the trade deficit, that is where you have to put your hand. Now those big inflows are financing our investment boom, and they are necessary, if we are to have that boom, because our Federal deficit is taking such a huge amount out of the domestically generated savings pool, to the fact where there is very little of it left after you take away the Federal deficit.

There is an input from State and local surpluses, so that is saving, and then there are private savings, and there is the huge dis-saving represented by the Federal budget deficit.

And so I think that the course that you are embarked on here, and which the President is embarked on, in trying to do something about this deficit, is a very important matter.

Senator Riegle. You know, if we did not buy that $130 billion worth of foreign goods, and we did not have that $130 billion of capital leaving the United States, some of that would remain here and be, in fact, part of the savings pool. That money was being spent on American goods and generating American profits, and American savings, and American tax revenues, and so forth. You would have a lot more capital here. You would not have to borrow as much from abroad.

AMERICAN CONSUMERS SHOULD HAVE ACCESS TO WORLD MARKETS

Secretary SHULTZ. Well, you are setting yourself up to tell the American consumer what they ought to buy and what they should not buy. Personally, I think American consumers ought to have access to world markets, and that it is healthy to have competition here from abroad.

But I do think that the level of the dollar has put our industry at a competitive disadvantage, and if we are going to do something about it, we have to identify why the dollar has gotten where it is, and examine what can be done about it, not throw up walls of protection around our economy and deny consumers a right to pick and choose as they wish from the world markets.

Senator RIEGLE. Well, I am just afraid—my time is up—we are at an alarm level in terms of the size of the deficit, that somebody, I think, has got to take some new actions, and I think the State Department has a role to play here, and you have many other things to do as well.

But I think when it reaches some absolute level, in the $130 to $150 billion a year range, that the alarm lights ought to go off. And it seems to me, that we ought to be hearing more from the State Department as to ways to change this, and I mean to really hit the thing head on. I get the feeling that the sense is, this is not a great problem, it will pass with time, and even if it does not, it is something that we can take in stride, and I guess I just have to challenge that view.

Secretary SHULTZ. Well, you do not have to convince me. I have tried to say here, in my response to the chairman's question, that I think this is a very grave problem, and I tried to explain why I think so, and in doing so, how, it seems to me, one has to go about tackling it.

Chairman DOMENICI. Thank you, Senator Riegle.

Senator Gorton.

NEW ZEALAND REPUDIATES TREATY OBLIGATIONS

Senator GORTON. Thank you, Mr. Chairman.

Secretary Shultz, during the course of the last few weeks, you have been required to deal, and have dealt with patience and skill, I think, with a very serious foreign policy challenge, the challenge resulting from the repudiation by New Zealand of pretty fundamental treaty obligations and understandings between allies with respect to the visit of ships to New Zealand ports which are either nuclear powered or nuclear armed.

I'd like you to comment on what that kind of unilateral decision means with respect to that alliance and the threat that it may provide elsewhere. And most specifically, I'd like your comments on whether or not our response should go beyond merely cancelling a joint naval maneuver under those circumstances. As you know, Senator Cohen has introduced a resolution which has now, through today, received very wide support in the Senate, dealing with special trade preferences, the overlooking of certain violations of international violations in the trade field by New Zealand, stating essentially that New Zealand has transformed itself essentially from an ally to a neutral—something which it has a perfect right to do—but stating in the resolution that it should be American policy to treat New Zealand in that fashion in the future, and not to grant it the kind of preferences and indulgences which are perhaps appropriate for a fully cooperating ally.

I wonder if I could get you to comment both on the situation with respect to New Zealand and, second, whether or not this doesn't create a danger of some kind of domino effect with respect to other nations.

ANZUS ALLIANCE MADE INOPERATIVE

Secretary SHULTZ. We felt, the President felt it was very important, first of all, when the new government took office in New Zealand, to work with them and to be patient, and work with our friends in Australia as well, to let them have plenty of time to assess the situation. And we have done that and we've had a lot of consultation.

We did feel that it was time, and Prime Minister Lange and I discussed this in New York, and he agreed, to make our regular ship visit request as we did in December. And that was followed up on and in the end they denied a port visit by one of our ships in response to our no confirm or deny policy.

We felt that that was an action that essentially made the ANZUS alliance inoperative in a very important respect insofar as New Zealand is concerned. And they have a perfect right to take that view and to take that action. And we don't question it. It's their sovereign right to do that.

But under the circumstances, we felt that they had changed the meaning of that military alliance.

MILITARY ASPECTS BEING EXAMINED AND CHANGED

And that being the case, we have been examining all of the various military aspects of our relationship with New Zealand, and have started a process of changing them in line with the New Zealand decision.

Now, having said that, I think we also must remember that while we're disappointed in that development, New Zealand is a Western country, it is a democracy, has the same basic values that we do. We believe that those who benefit from freedom and live by freedom ought to be willing to stand up and defend it, so we're disappointed in that aspect of the New Zealand performance.

But basically New Zealand is a friendly country with similar values, and we don't want to overreact to what they have done. But I think it is basically a military matter.

Now, it is true that we have argued, and I have argued in our governmental councils on a number of occasions, that because we have this special relationship we ought to do extraordinary things for New Zealand. It's just not possible to make that argument.

But we don't want to—I would question the wisdom of passing something as momentous as a congressional action on this. I think it can be handled all right within the framework that you've expressed and that I've expressed. We're seeing it the same way, but I think we need to work at it in this manner remembering that while New Zealand has basically taken a walk from the military alliance, they haven't taken a walk from Western values, and they're a friend, and we need to treat them that way.

We intend to keep the ANZUS treaty in tact, and if there is a change of mind at some point down the road, it's there, and it can be made operative again.

I do believe that when people look squarely at what is happening in that part of the world—there's this feeling that there's New Zealand and to a lesser extent Australia, and they're sort of way off away from everything—the fact of the matter is that with the Soviet presence in Vietnam, and the developments in Camran Bay, and the extension of their influence with potential developments in Cambodia, which we in the ASEAN countries are resisting, but nevertheless they're there, the Soviet presence in that part of the world has grown greatly. And so there are definite security concerns that one would think the New Zealanders would see and see as the threat that they are.

Senator GORTON. You are saying, nevertheless, that you are not now considering and do not intend to consider any response other than a response within the military alliance framework of ANZUS itself?

Secretary SHULTZ. Plus whatever flows out of that in terms of things that we did that made New Zealand in a special category and it's not in that category any more.

But I don't think we want to transform an ally into an enemy. I don't know if you've ever been to New Zealand. It's a wonderful country, beautiful, with lovely people. They're just great. They're our friends.

Senator GORTON. Thank you, Mr. Chairman.

Chairman DOMENICI. Senator Sasser?

Senator SASSER. Thank you, Mr. Chairman.

Chairman DOMENICI. Senator Sasser, I wonder if you would just indulge me for 30 seconds. I wanted to make a comment while Senator——

Senator SASSER. What if I said no, Mr. Chairman?

Chairman DOMENICI. I'm afraid that——

Senator SASSER. I wouldn't dare do that.

EXIMBANK PROPOSAL

Chairman DOMENICI. I'm afraid I'd do it anyway. You're right. But it's nicer to do it cordially.

Senator Kasten, you raised a point a while ago—it has nothing to do with our guests here—but you said to the Secretary, if I understood you correctly, that under the President's proposal for function 150, the Eximbank would account for a $4 billion savings. You were very concerned because the Eximbank direct loan is a popular program, and to the extent that we would ratchet down function 150 in line with the President, then Congress might not act accordingly on Eximbank. You were concerned about the pressure that would impose on the foreign assistance programs that the Secretary has addressed here, some of which are not yet detailed enough to be in the President's proposal. One of two things would happen. Foreign aid would have to suffer, or the whole function would come in much higher than our budget. You properly assumed that such an outcome might be very dangerous, especially at the tail end of a year, that it would put something very significant in jeopardy—maybe aid to Israel, aid to Egypt and the like.

I would like to say to you that while I can graciously coerce the distinguished Senator to yield another 30 seconds to me, I can't work my will on this committee in any dictatorial manner, but I would suggest that the chairman intends to ask the committee to handle that kind of problem differently this year. And I hope I will get support.

I think we ought to be much more specific, even if that involves some kind of a gamble on the floor. And if we are going to vote that Eximbank is halved, or totally eliminated, that we do so with specificity and direction to the committee, of jurisdiction, and then we will know that at least the Congress has spoken on what is the make up of the function.

If they support our proposal that Exim be eliminated or cut in half, or that direct loans or a portion of it—I note Senator Slade Gorton is having some very difficult times with this discussion, they're purely hypothetical, Senator. Until we have the votes, obviously they're hypothetical.

Senator Gorton. They are very hypothetical.

Chairman Domenici. Not the overall premise. Just the Eximbank is. The overall premise is satisfactory, is it not?

BUDGET PROCESS GOING TO FORCE DECISIONS

Senator Kasten. If the Senator from Tennessee would just yield for me to make a brief reply, I couldn't agree more. I don't know what assumptions we're going to make, Mr. Chairman, on aid to Israel. And, I don't know what assumptions we're going to make on an 1985 supplemental to Israel, and the Exim.

But I think what I said to the Secretary is that frankly the budget process is going to force some of these decisions earlier than be might expect. But that next July, August, or September, we cannot ask Congress to go significantly over the budget. We're not talking about a couple hundred thousand dollars here. We're talking about huge changes.

So the budget process, frankly, is going to force the decision, and force the votes on these issues.

Chairman Domenici. Did you want to comment, Mr. Secretary?

Secretary Shultz. Yes, I would like to make two comments.

First, that we don't want to get in the position—I'm speaking for the administration—of having the committee endorse a total and then later on a large sum of money comes for Israel and it comes within that total and it squeezes everything else out. We've been there, and it doesn't work. It just causes mayhem throughout the world.

So that's why I emphasized in the discussion I had with Senator Kasten at least our concept that whatever we come with for Israel is in addition to the numbers that you see here.

The second point is that I am aware and perhaps made more so by your comments that this is a fast track, and we can't just wait forever to come to a conclusion on this matter and we'll have to come to grips with it, and we are coming to grips with it. We've worked on it a great deal.

But I will have to be very cognizant, I know, of your time schedule, and I will do so.

Chairman DOMENICI. Thank you, Mr. Secretary.

Senator SASSER?

ARMS SHIPMENTS FROM NICARAGUA TO EL SALVADOR

Senator SASSER. Thank you, Mr. Chairman.

Mr. Secretary, I note, at least I think I detect from the President's statements of recent days and weeks that we appear to be escalating the rhetoric as far as Central America is concerned, and specifically in Nicaragua. Is there any new evidence that the Sandinista government of Nicaragua is aiding the guerrillas in El Salvador with military equipment?

Or, more specifically, have any shipments of arms or ammunition been caputured on their way from Nicaragua to El Salvador in the past year?

Secretary SHULTZ. Well, I think it's depressing to have to say that from all the evidence that we have, the pattern continues of support from Nicaragua to guerrillas in El Salvador, of turning away from the promises of democracy that the Nicaraguans made, of continued efforts to suppress various forces for pluralism in Nicaragua.

The picture does not look better.

Senator SASSER. Well, my narrow question to you is, Have we captured any shipments of ammunition or arms on their way from Nicaragua to El Salvador in, say, the last 12 months?

Secretary SHULTZ. We have a great deal of evidence of the continuing flow and there has been some success in interdiction and some slowdown of it. But, nevertheless, the evidence of continuing flows is, I think, clear.

Senator SASSER. Do we actually have any of that hardware in our hands, or have any of our agents apprehended any of it on its way from Nicaragua to El Salvador?

Secretary SHULTZ. We have arms that are taken, among other things, from the guerrillas themselves.

PRESIDENT URGES FUNDING CONTRAS

Senator SASSER. The President has taken his case directly to the American people, it appears to me, urging support for continued funding for the Nicaraguan Contras or counterrevolutionaries, or whatever the proper title is. The Contras, Mr. Secretary, have made it clear that their intention is to topple the Sandinista government if they can. Does this mean that the administration seeks to topple the Sandinista government?

Secretary SHULTZ. What we see is a government in Nicaragua that is arming, that is being armed by the Soviet Union, is developing an army—if you include the reserves—that far exceeds anything remotely needed for defense in Central America.

We see a government that is undertaking the sorts of things that you would do were you trying to create a totalitarian form of government. We see a government that is causing its own citizens to rebel.

And so, it's a government that is bad news for the citizens of Nicaragua, for its neighbors in Central America, and for our own security interests here in the United States.

So what we believe is that stability in Central America will come when that government changes its pattern of behavior in whatever manner. It would have been a fine thing if they had carried through with what seemed to be almost agreed between a Sandinista negotiator and Arturo Cruz, of conditions for the holding of an election. But they backed off in the end in discussions that were held, I believe, in Rio. And so we had an election that didn't remotely resemble an open election with freedom of assembly and freedom to campaign and so on.

So again and again there are missed opportunities here, but it's a question of their behavior. And somehow or other we think that stability in Central America will not come until that behavior changes.

CONTADORA PROCESS SUPPORTED

Senator SASSER. Mr. Secretary, we have embraced, or we did embrace at one time, the Contadora process for solving the problems of Central America.

Then the Nicaraguans, to our surprise, came forward and they also embraced the Contadora process and said they would abide by it just a few months ago. Then we seemed to get cold feet on the Contadora process, and I read in the press that we are discouraging our friends in that region from engaging or pushing us to go along with the process. Why are we doing that if that is the case?

As I understand the Contadora process, it is an effort to get foreign military advisers out of the region, to get foreign arms out of the region. It is an effort by countries in that region hopefully to try to demilitarize that area, and reach some sort of accommodation.

Are we backing away from the Contadora process, and if so, why?

Secretary SHULTZ. Well, I would describe the chain of events differently than you did. We have supported the Contadora process from the beginning. We've supported the idea that what is needed is a regional solution to the problems of Central America, and the Contadora process embodies that idea.

We continue to support the Contadora process. We continue to hope that in the end Nicaragua may be willing not only to agree to an act that will deal with the matters at hand, but also will abide by what it agrees to. That's one of the great problems here.

The interest of Nicaragua in this kind of process seems to vary directly with the amount of internal pressure that they feel is present, and as the Congress declined to provide further funds, and they began to feel that the pressure was entirely off, their attitude changed.

So, I think that as is often the case, a person's attitude toward negotiations varies according to the amount of pressure they feel. And with the pressure off, they're less concerned.

Senator **Sasser**. If I could just go on for one more question——

Chairman **Domenici**. Go ahead.

Senator **Sasser**. Mr. Chairman, in view of the fact that I cooperated with you and my colleagues here——

Chairman **Domenici**. I'm delighted.

NO U.S. MILITARY INTERVENTION IN NICARAGUA

Senator **Sasser**. I'm sure you wouldn't begrudge me that.

Mr. Secretary, can you envision any circumstances under which the United States would intervene militarily in Nicaragua other than if Nicaragua should invade one of its neighbors and bring into action the Rio Treaty?

Secretary **Shultz**. There isn't any plan along those lines that's operative.

Senator **Sasser**. Thank you, sir.

Chairman **Domenici**. Thank you, very much, Senator Sasser.

Senator Grassley?

DEFENSE BUDGET SHOULD PROVIDE ADEQUATE SECURITY

Senator **Grassley**. Thank you, Mr. Chairman.

Mr. Secretary, I appreciate in your opening statement and in your answers to questions your agreement with the need to make drastic budget reforms, getting the deficit down considerably.

Within the parameters of the statements you've made, and considering the fact that I am proposing an across the board budget freeze, the key to it from my standpoint probably resting with what we do on defense, I'd like to know your position in Cabinet meetings at which the budget was discussed, what the level of defense expenditure ought to be, and more specifically in light of the tremendous success you've had, and the President has had in getting the Russians back to the negotiating table in Geneva, whether or not in that environment there's any chance we could be spending less on defense and still not jeopardizing our negotiating position there or the defense of our Nation?

Secretary **Shultz**. Well, Senator, I fully support the President's budget request on defense, and I think it is essential for us to support the security interests of our country in and of themselves and for their own sake, not as a bargaining matter with the Soviets.

But I think that the same lesson applies, as I was suggesting to Senator Sasser, that what you give away they don't have to bargain about.

So there is an element here of showing resolve and determination and strength as part of a negotiating process. But I think the principle justification of the defense budget obviously has to be provision of adequate security for our country.

LEVEL OF DEFENSE EXPENDITURE

Senator **Grassley**. I do appreciate the fact that once the President makes a decision you as the loyal supporter and Cabinet member and team player would have to support it. But what was your judgment prior to the President's decision of what the level of defense expenditures should be? There are always discussions of that within the administration and probably the point of view of the Secretary of State would be weighed heavily by the President.

Secretary **Shultz**. Well, first of all, I don't think it's proper for me to discuss my conversations with the President in our councils on budget matters or other matters to that question.

Senator **Grassley**. I accept that. You don't need to explain any further.

Secretary **Shultz**. I would like to add, however, that I think there are—I don't pretend to be an expert on the insides of the defense budget. I think I know it overall, and I worked on it quite a lot as budget director. But to get into all of the details of the defense budget, I'm not prepared to try to do that—although I think I can probably get up on it.

But I can see myself just as a very, very interested observer that there are concerns that I would have about the adequacy of our defense that are not being met as fully as I would like to see them.

So I think that while many will make an argument that it should be lower, there are things that you can point to that would argue that it should be higher.

So I wouldn't necessarily say the scales are all weighted on one side.

Senator **Grassley**. Well, then, you may even take the view that we should have a higher figure than what the President came upon?

Secretary **Shultz**. My view is that I support the President's request, and I'm just saying that there are lots of things you could argue about on both sides of this equation.

DEFENSE CUTS COULD HURT ARMS TALKS

Senator **Grassley**. Well, then, let me hit it at the other angle. Then in any way does it have any bearing on our relative success of at least beginning the talks? I understand they're just beginning and there are months and maybe years before there will be an agreement. But does that weigh in any way in your judgment on what we ought to be spending on defense?

Secretary **Shultz**. I can't help but feel that the Soviet presence in Geneva will be a reflection of the fact that they see not only a United States that has genuine resolve, but they see a structure of alliances where that resolve is exhibited as well.

And their effort last year, and late in 1983 and through 1983 to cause the Europeans not to deploy according to the NATO dual track decision failed. And the deployments went on. And the resolve and the coherence of NATO is perhaps greater than ever.

So all of these things, including our own resolve, and the President's modernization program, and his efforts to look at our defenses, including strategic defenses, and do the research necessary, all of those things must have a bearing, although I don't pretend to be a Soviet mind reader.

Senator **GRASSLEY**. Do you feel that if we would spend less than what the President requests upon defense that we would be hurting our negotiating position in Geneva?

Secretary **SHULTZ**. I think we ought to look at the defense budget on its own merits, first and foremost. But obviously if it is cut substantially, if what we show is that we don't have the resolve to do what is necessary for defense, particularly if we cut certain kinds of programs, that we are doing those negotiations a disservice.

I single out especially because it will be coming up for a vote very soon the MX Program. And I think it's essential, not only that the Congress support that program, but that you give it wholehearted and big support. That's what we need to support our negotiators.

Senator **GRASSLEY**. Thank you, Mr. Chairman.

Chairman **DOMENICI**. Thank you, Senator.

Senator Danforth?

FOREIGN AID SERVES U.S. INTERESTS

Senator **DANFORTH**. Mr. Secretary, at a time of budget deficits, one recurring theme from the public is that foreign aid is an area which could be significantly cut, that foreign aid amounts to a gratuity from the United States to the rest of the world, that if we're practicing charity, charity should begin at home, and that we should fund more adequately domestic programs at the expense of some of the foreign aid funding.

On the other hand, during the confirmation hearings of Treasury Secretary Baker, when asked about the trade deficit, Secretary Baker said that in his view one of the most important things that we can do to redress the trade deficit, put ourselves in a better position, would be to encourage economic development, economic growth in the rest of the world.

I take it that his comment before the Finance Committee was in the nature of an argument in favor of foreign aid as something being in the economic self-interest of the United States.

Public Law 480 is clearly in the economic interests of the agricultural community in America. We have a stake in the pace process in the Middle East, which you've testified to. I would like you, if you would, to please address the question of whether foreign aid is a matter of international charity which could easily be cut when we're cutting back other parts of the budget, or whether you see it as an essential activity in furtherance of the self-interest of the United States.

Secretary Shultz. I appreciate the opportunity to answer that question, Senator, because it gives me an opportunity to say very affirmatively that I view these programs as very much serving the interests of the United States.

Our security, our aspirations for a democracy and freedom for ourselves and others, the economic aspects, as you brought out by referring to Secretary Baker's testimony, and in many other ways.

Having said that, I don't want to sell short in any way the charitable instincts of the American people and their inherent generosity. And I think that in some areas we do see that, and it's proper.

And you, yourself, have given a lot of attention and leadership to the importance of being responsive to the hunger in Africa. And I think what we see there is essentially the inherent generosity of the American people coming through, and it's there, and we should be proud of that instinct.

But that is not what is behind the main thrust of our assistance programs. But nevertheless it's there, and I think it's good. We can be proud of it.

COMMITMENT TO INTERNATIONAL DEVELOPMENT ASSOCIATION

Senator **DANFORTH**. It's been, frankly, several months since I've looked at the issue of our commitment to multilateral assistance, and especially to the International Development Association.

It's my recollection that some time ago we reduced what had been a previous commitment to IDA by something like 25 percent, and that the result of that reduction of commitment to IDA was a lessening of the leverage that we have on other countries who participate in multilateral development assistance.

What is the commitment of the administration to IDA in particular, and to multilateral efforts in general? Is it accurate to say that we have pulled back somewhat in our commitment to international organizations?

Secretary **SHULTZ**. I believe I'm correct in saying that when the Reagan Administration came into office, it found itself with a commitment to IDA made by the prior administration which the Congress even in its pre-1980 election wouldn't fund.

And the administration worked very hard on it, and basically stretched out the payments and we still haven't fully funded IDA VI. And that is in the supplemental request, and I think it's very important to come through and live up to that responsibility.

In effect, the yearly level is reduced by the fact of stretching it out, and we undertook to do that, and we worked it out, and I think it's very important to carry through on that obligation.

The IDA VII level is at a lesser level, but I think it's a reasonable one, and we recommend very strongly that the Congress continue on and fund that commitment.

It's very important for us to be able to carry through on commitments that we make. And that particular commitment was made with a great deal of consultation with the Congress, and I think in a general way has been approved, and we should carry through on it.

Other donors look at what we do. They have stepped up, and some have stepped up a little bit more as a result of our stepping back some. But I think on the whole, a realignment is appropriate given the fact that our posture in the world economy, while still a very prominent one, is a little less than it has been in earlier years.

So the Japanese should come up, and others should come up some, and that's appropriate.

Senator **Danforth**. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, very much, Senator Danforth. Senator Symms, before you proceed, let me burden you for one minute.

Senator **Symms**. Go ahead.

DOMESTIC PROGRAMS FACING REFORM

Chairman **Domenici**. What you have said about foreign assistance is correct, and clearly for the most part it is either something America can be very proud of as a powerful and humane nation or something in our self-interest, or a combination of both.

I would like to put some things in perspective. I know it won't necessarily have an impact as you in the executive branch discuss the final numbers you're going to give us on the foreign aid package, but since you've been through a budget process much like we have to go through I would just like to tell you what we must do to save $2 billion in outlays in 1986 on the domestic side. This is sort of a laundry list. There are many items that are much bigger, but so you'll appreciate the tough problem we've got.

To get $2 billion in 1986, we have to reform the Student Loan Program, reform the Veterans' Health Care Program, reform the Rural Electric Program, reform the Child Nutrition Program, increase the origination fee for all VA houses, cut the Corps of Engineers or insist that they impose user fees, cut public land acquisition, terminate EDA, terminate urban development action grants—that's called UDAG. Depending upon what the word reform means, either they're eliminated or drastically changed. The savings total of doing something drastic in all of those programs will be about $2.1 billion in 1986.

I tell you that, not to minimize the importance of what you have to do, but to put into perspective how important it is that everyone understand how tough our job is in reducing the domestic side of the budget. I think that was 12 programs that I ticked off.

Secretary **Shultz**. I can even remember trying to do something about those programs way back when I was a budget director. Some of those programs deserve to be dealt a severe blow.

Chairman **Domenici**. Amen.

Secretary **Shultz**. No question.

Chairman **Domenici**. That's why they're on the list this year. Senator Symms?

SUPPORT FRIENDS AND OPPOSE ENEMIES

Senator **Symms**. Thank you, very much, Mr. Chairman. Mr. Secretary, the point the chairman, of course, is making is that there are some programs that are much more near and dear to the hearts of some our constituents than some of the problems that are over across the ocean. I think that's the political reality that we face here. And as Senator Danforth said, there are many people—and we've all been home for the last 2 weeks meeting with our constituents, and a lot of them believe that charity starts close to home. If we could just give a little fast action once in a while, maybe even a little lip service to, for example, the situation in New Zealand, sometimes I think it might—and I know you've been giving it—but I mean even more dramatically, it might get their attention when I think about the fact that especially since New Zealand has 73 million sheep and 6 million people and a bit share of their market comes here. We're down to 8 million sheep left in the United States. We can't compete very efficiently today because of costs and other factors with all of the foreign wool that is imported to this country.

So I would hope that you would think of those things. I did want to thank you, Mr. Secretary, before I got into my questions, your diligence here this afternoon, and not only that, but your diligence of 40 years ago today with you and your colleagues in the Pacific. We've had many celebrations around the Hill this week, and we thank you for that.

I come from the school of thought that we ought to support our friends and oppose our enemies, and I think you share that view. But it seems sometimes when I look at our foreign aid budget, there isn't always a consistent case for supporting our friends.

UNITA SUPPORT NOT IN BUDGET

I have to say I was kind of disappointed that there isn't even a line in the budget asking for a contribution to UNITA, Jonas Savimbi's group in Angola. I had the opportunity last year to fly from Windhoek out to Camp Omega and then north into Angola to visit with Savimbi.

Here's a black, Christian, anti-Communist, prowestern, pro-American, and probably one of the greatest living people in the world today, fighting our war for us in Angola, and we don't even have a line in the budget for them.

Now, I know we've got the Clark amendment that interferes with that.

Secretary **SHULTZ**. You have the U.S. Congress to thank for the fact that——

Senator **SYMMS**. I understand that. And, I appreciate the fact that the President called for supporting the Afghan freedom fighters, and the Nicaraguan freedom fighters in his speech to the Congress here a couple of weeks ago.

I would only appeal to you that if the President could just even ask for aid to UNITA, then it puts the burden back over here in the Congress of why we're not supporting Savimbi.

In my opinion, if Angola would come back to the West, the central part of Africa would fall back to the West and the Soviets would be on the run in Africa. I don't disapprove of most of what your constructive engagement program is about in Africa.

But, having said that, it greatly distresses me, and a lot of my colleagues, to see no line in the budget for the profreedom, prowestern people in, Angola and then, money in the budget for foreign aid for the Marxist government of Mozambique.

And I just wonder if there's any rationale for why we would want to give money to a Communist country when it's almost on the verge of falling? We come in at the last minute, and prop them back up again, and help them.

Secretary SHULTZ. I don't think it's a question of propping up something that's about to fall, but rather seeing an opportunity to bring about a shift in alignments in the southern part of Africa. And with the NKOMATI accords and other developments having to do with Mozambique, we feel that there is a chance that there may be a shift there.

Certainly Mozambique is among the countries that are a vivid illustration of the fact that the Soviet style of economic development doesn't work. It just hasn't worked at all in Mozambique.

Senator SYMMS. It hasn't worked very well in Ethiopia either.

Secretary SHULTZ. Well, you name it where it has been applied and it's worked. So it's pretty well demonstrated.

So we see an opportunity there, and we see it as an opportunity to work with the Portuguese in that case, and I think that what we're doing has some great promise and perhaps it has some implications for some other countries in Southern Africa, including Angola.

ETHIOPIAN SITUATION DISTRESSING

Senator SYMMS. I would just say I'm trying very hard to support your constructive engagement policy in Africa, but it is troublesome, I think, to see those kinds of disparities.

I was told last week that the Ethiopian Government spent $100 million to celebrate the 10th anniversary of their Marxist take-over that they could have spent on putting in 15,000 acres of arable land. Is that actually true, to the best of your knowledge?

Secretary SHULTZ. Sounds like a pretty big party to me. I don't know about that, but as I said in my statement, the Ethiopian situation is a very distressing one because while as in other African countries the drought has made a contribution to hunger, the mismanagement is the larger problem. And in the case of Ethiopia, there is rebellion against that regime within the country, and for political reasons they are preventing the movement of food aid to hungry people in the area that others hold. And we don't admire that a bit either.

Senator SYMMS. Well, for the life of me, it seems like some of our friends would do more good by picketing the Ethiopian Embassy where they plan to starve people to death, than they would do by picketing the South African Embassy. Things aren't perfect in South Africa, but certainly the lot of the average African is better in South Africa than it is in Ethiopia.

I would only caution you that somewhere along the line I think this budget's going to get bumped a little bit down—if we actually pass a budget—and I hope we can work it out, because we do need the security assistance programs that are so important as far as our security is concerned.

And I know you have spoken very well to that many times when I've been in your presence, and I agree with you that security assistance certainly can be more important than our defense budget in many ways.

I hope this can be worked out, but I would only caution you as Senator Kasten and the chairman have made the point, that this is coming down the road very rapidly, and I hope it can be worked out to your and our allies satisfaction.

May I have one last question, Mr. Chairman?

Chairman **Domenici**. Of course.

F-20 SALE TO TAIWAN

Senator **Symms**. Mr. Secretary, I would just ask one last question. I asked you this last year: Is there any movement within the administration to allow the sale of the F-20 to Taiwan?

Secretary **Shultz**. No; I don't think so. But you catch me unprepared on that particular item.

SALE OF ARMS TO SOUTH AFRICA EMBARGOED

Senator **Symms**. Well, I'm sorry to hear that, but I keep hoping that maybe some day we'll at least sell our friends equipment that they think they need to defend themselves.

Do we have an embargo on the sale of arms to South Africa?

Secretary **Shultz**. There are no arms sales from us to South Africa.

Senator **Symms**. Is that embargoed?

Secretary **Shultz**. Yes. And the result of that is that South Africa has developed a thriving arms industry, and is now an exporter.

Senator **Symms**. Well, it would appear to me that it's very foolish for the United States not to sell South Africa some search and rescue airplanes, so that when ships go by the southern part of Africa, American ships even, that there might be available search and rescue there, which they are rapidly running out of.

They've expressed their willingness to buy this equipment, but I guess we still have laws that stop that passed by Congress? Is that correct?

Secretary **Shultz**. I think that's right.

Senator **Symms**. Thank you.

Chairman **Domenici**. Senator Kasten?

Senator **Kasten**. No questions.

CAN'T PASS PRESIDENT'S RECOMMENDED BUDGET

Chairman **Domenici**. Mr. Secretary, to repeat myself, I greatly appreciate your accommodating us in your schedule and your forthright answers. In particular, I personally thank you for what I consider to be a very excellent answer with reference to the detrimental effect of the deficit on our way of life and our position in this world.

I have two observations: Obviously before we're finished with this process, even though we're on a fast track, we'll have to get back to the President. As in every budget, and you're an expert at Presidential budgets, we can't pass the budget as the President recommended it intact. We must get back and talk about changes that we think we have to make to see if we can get his support.

I hope that you will be part of those negotiations, and I, for one, will take it upon myself to share with you concerns I might have, with reference to how far we can go.

INTERNATIONAL FUNDING INSTITUTIONS

With reference to our multilateral funding institutions, I have a number of concerns that are probably too parochial for a budget hearing, with reference to why we continue to use some of our international funding mechanisms to promote and develop commodities that are in surplus in world trade. I don't want to use time for that now, nor to address the validity of the compensatory finance provisions of the IMF as they were expanded from agriculture into industrial and manufactured goods.

At some more opportune time I would like to discuss them with you personally because I have some very firm beliefs with reference to them. But as I said, I won't do that here in this session.

I have six questions with reference to Israel and Egypt that are both historic and current, and rather than ask you to answer them now, I'll submit them to you for your response at your earliest convenience.[1]

Rather than ask Under Secretary Schneider to answer questions with reference to the composition of the entire function 150, could I do it this way? We will provide my opening statement with reference to the mix of possible requirements. Consider that the mix that I described is a question, and answer it so that we will understand where I'm wrong and where my assumptions are in error and where they're right so that we'll know where we start.[2]

And the six questions do get to some of those points in any event with reference to Israel and Egypt.

I have one question with reference to Bolivia that Senator Chiles asked me to submit to you. It won't take long to answer it either. I'll submit it for the record at this time.[3]

Would you care to add anything more, Mr. Secretary?

Secretary **Shultz**. No; except that I feel in good hands with Bill Schneider, whose command of the intricacies of the budget, and relationships among the parts is fabulous. And I know he's available to you. He spends a lot of time on the Hill, and he has the complete confidence and respect of everybody in the Department.

So, when you're dealing with Bill, you're dealing with all of us.

Chairman **Domenici**. Thank you very much. Thank you, Bill. We stand in recess.

[The committee adjourned at 5:44 p.m.]

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[1] See p. 432.

[2] See p. 438.

[3] See p. 444.

WRITTEN QUESTIONS FROM CHAIRMAN DOMENICI TO SECRETARY SCHULTZ AND THE RESPONSES

Q. How much aid have we provided to Egypt and Israel since 1979, and how much of that was military assistance?

A. From Fiscal Year 1979 and including the funds appropriated for Fiscal Year 1985, the U.S. Government has provided Israel with $18.635 billion in assistance; $12.6 billion of the total was military assistance. During the same period, Egypt received $14.332 billion in U.S. assistance; $6.825 billion of the total was military assistance. The total assistance for Israel and Egypt during this period was $32.967 billion; $19.425 billion or 59% was military assistance.

Q. Considering the amount of military assistance we have provided over the past 6 years, why is it necessary to increase the program from $1.6 billion this year to $2.1 billion in 1986?

A. -- As Secretary Shultz stated in his testimony before the HFAC, the U.S. has a commitment to Israel's security that extends over three decades. Further progress towards peace depends in part on Israel having sufficient confidence in U.S. support and assistance. Accordingly, we have recommended a $400 million increase in forgiven foreign military sales credits. We believe the enhanced program will help Israel maintain its qualitative military edge in the Middle East.

-- Our FMS program in Egypt is helping Egypt replace obsolete Soviet-supplied arms with the more modern equipment required for Egypt to remain a credible deterrent to adventurism by increasingly well armed radical states in the region. All but about $20 million of the $1.3 billion in FMS forgiven credits proposed for FY 86 will be used to meet progress payments on equipment already ordered and to secure essential follow-on support for equipment already delivered.

Q: Would you advise the Committee to assume that annual economic aid to Israel in 1986 and subsequent years will be less than the $1.2 billion enacted thus far in 1985?

A: The Israeli balance of payments projections for the next three years show their non-military financing requirement increasing sharply in 1986 to $1.85 billion but then declining to $1.14 billion in 1988. The GOI is seeking extraordinary assistance in the form of an FY 85 supplemental and a sharp increase in FY 86 to provide transitional financing while its economic program of budget/subsidy cuts and revenue enhancing measures takes hold. The GOI believes it will take 18 months to stabilize the economy and bring the balance of payments deficit back down to a level which can be financed through normal official and private capital inflows from abroad. Once this has happened, Israel should indeed need less, rather than more economic assistance from the US, and thus our assistance could conceivably fall below the $1.2 billion in future years. We have indicated, however, our willingness to provide additional assistance in support of a comprehensive economic adjustment program.

Q: If the Joint U.S.-Israel Economic Development Group comes to an agreement on a comprehensive Israeli economic program within the next 3 months, are you more inclined to request extraordinary assistance in a supplemental request or in an amendment to the 1986 budget request?

A: As Secretary Shultz has stated, we have not yet reached a decision on Israel's assistance requests--either the FY 85 supplemental request or their FY 86 request. Decisions on the level of assistance and the form in which it will be presented to Congress, i.e. as an amendment to the FY 86 budget request and/or as an FY 85 supplemental request, await further discussions with the Israelis and further evolution in Israel's economic program. Assuming the US and Israel reach an agreement on the Israeli ecnomic program, we believe a request for additional assistance in an Fy 85 supplemental is likely.

Q: If Congress agrees to provide extraordinary economic assistance to support economic reform in Israel, do you expect to release the outlays at once, or in installments tied to performance criteria? In what years are the outlays more likely to occur?

A: The Israeli economic stabilization program will cover an 18 month period that will straddle both our FY 85 and FY 86 budgets and possibly the FY 87 budget as well. Accordingly, there is a strong possibility that an extraordinary economic assistance request will include outlay authority for both fiscal years. At this point we can not say how we would want to structure disbursements or if performance objectives would be part of an aid package.

Q. Are you considering an increase in economic aid to Egypt if an additional request is made for Israel? Are the Egyptians also undertaking a comprehensive economic reform program?

A. -- Egypt is facing a growing balance of payments problem. This problem has its roots in some Egyptian fiscal policies which stimulate consumption and act as disincentives to production. The problem is being exacerbated by the decline in crude oil prices which affects Egypt's major sources of foreign exchange, such as oil exports and workers' remittances.

-- The Egyptian Government has requested additional economic assistance in light of Egypt's deteriorating balance of payments situation.

-- We have reminded Egypt of the already generous assistance we will be providing this year and have proposed for next year, and have pointed out our own serious budget problems.

-- However, we do have important interests in Egypt and, we would have to give careful consideration to a request for support should Egypt move decisively to address the root causes of its balance of payments problems.

WRITTEN QUESTION FROM CHAIRMAN DOMENICI TO UNDER SECRETARY SCHNEIDER AND THE RESPONSE

In your opening statement you indicated that your review of the FY 1986 budget request for function 150 seemed to indicate that program levels are actually increasing, and not decreasing as the Administration was contending in the Budget document and in prepared testimony.

Your assessment was based on a number of assumptions that, in effect, eliminated several pieces of the overall 150 request from your calculations. Excluded were the EXIM Bank, the effect of off-budget FMS credit draw downs, receipts, etc., In addition, you added to the FY 1986 request level an assumed $1.2 billion for Israeli ESF and another $400 million to cover potential African drought related assistance and further capitalization of the FMS Guarantee Reserve Fund.

This analysis, thus, excluded "non-appropriated" portions of the 150 function and included items that you believe either should have been requested or will be requested in the future.

We believe that this approach is severely limited in its focus and fails to take into account the macro-economic effect of all parts of the budget function on the totality of federal spending. Furthermore, with the exception of ESF for Israel, we do not believe that the additional food aid and GRF replenishment requirements you identify are legitimate threats to overall budget ceilings.

First, we agree that it is confusing to have, for the first time, the BA and Outlay effect of off-budget FMS loan draw downs show in the Budget document. It is, however, a more thorough and comprehensive budget presentation since these items are a part of overall federal activity and do contribute to the budget deficit.

The same holds true for receipts. Receipts may not be controllable through the annual appropriation process, but they do reduce the amount of overall federal spending associated with a given set of programs.

We believe, therefore, that the entire 150 function must be looked at in determining the overall level of international affairs activities that is being proposed in FY 1986 and compare that level with a comparable figure for FY 1985. From this perspective, the elimination of the EXIM direct loan program (which is a major Administration initiative) cannot be left out of the equation. Elimination of this particular federal activity more than compensates for the increases that are being requested in other high priority areas of the international affairs budget.

For example, in the area of security assistance, with the exception of increased FMS levels for Israel and Egypt, other increases over the FY 1985 appropriated levels are relatively small, but still critical if we are to meet our worldwide national security and foreign policy objectives.

With respect to African food aid, we believe that favorable Congressional action on our emergency FY 1985 supplemental request, combined with our FY 1986 food aid request, will provide adequate resources to deal with current estimates of famine relief requirements.

Finally, with regard to the GRF, our current projections indicate that the fund will have enough to cover requirements through FY 1986 without a replenishment. Subsequent replenishments, according to the Administration's proposal, will be provided in the form of permanent, indefinite budget authority in the same fashion that other mandatory federal payment programs are now being handled. Whether this program is funded through annual or permanent appropriations will have no effect whatsoever on budget outlays. By law these payments will have to be made under either arrangement. If, however, Congress rejects the permanent, indefinite budget authority proposal and decides that an FY 1986 appropriation is in order, we do not believe that this additional appropriation should be at the expense of other parts of the 150 program.

The attached table characterizes the FY 1985 to FY 1986 Function 150 levels as we see them. We believe that the table accurately portrays the overall level of activity in the international affairs area and clearly demonstrates that, taken as a whole, this activity is declining. Within this overall declining level, however, adjustments have been made to provide a program mix that can best meet our foreign policy objectives. We urge the Committee to give consideration to the 150 function as a whole as it deliberates its actions on those portions of the function that are directly appropriated.

Attachment:
    Table.

BUDGET FUNCTION 150 SUMMARY TABLE
EXCLUDING OFF-BUDGET FMS ESTIMATES

(BUDGET AUTHORITY IN MILLIONS OF DOLLARS)

	FY 1985			
SUB-FUNCTION	ENACTED	PROPOSED SUPPS.	TOTAL	FY1986 REQUEST
151-Foreign Economic and Financial Assistance	5,374.9	471.7	5,846.6	5,342.1
152-International Security Assistance	9,706.6	--	9,706.6	9,436.8
153-Conduct of Foreign Affairs	2,256.6	249.9	2,506.5	2,469.8
154-Foreign Information and Exchange Activities	896.6	--	896.6	1,117.8
155-International Financial Institutions	4,588.5	--	4,588.5	891.0
TOTAL FUNCTION 150	22,823.2	721.6	23,544.8	19,257.5

(NOTE: The above figures are net of receipts and do not include an ESF figure for Israel in the sub-function 152 level shown for FY 1986. Including ESF for Israel at the 1985 appropriated level of $1.2 billion would increase the FY 1986 total to $20.5 billion, which would be $2.5 billion below the FY 1985 enacted level.)

BUDGET FUNCTION 150 SUMMARY TABLE INCLUDING OFF-BUDGET FMS ESTIMATES

(BUDGET AUTHORITY IN MILLIONS OF DOLLARS)

	FY 1985			FY1986 REQUEST
SUB-FUNCTION	ENACTED	PROPOSED SUPPS.	TOTAL	
151-Foreign Economic and Financial Assistance	5,374.9	471.7	5,846.6	5,342.1
152-International Security Assistance	12,854.0	--	12,854.0	10,748.0
153-Conduct of Foreign Affairs	2,256.6	249.9	2,506.5	2,469.8
154-Foreign Information and Exchange Activities	896.6	--	896.6	1,117.8
155-International Financial Institutions	4,588.5	--	4,588.5	891.0
TOTAL FUNCTION 150	25,970.6	721.6	26,692.2	20,568.7

(NOTE: The above figures are net of receipts and do not include an ESF figure for Israel in the sub-function 152 level shown for FY 1986. Including ESF for Israel at the 1985 appropriated level of $1.2 billion would increase the FY 1986 total to $21.8 billion, which would be $4.2 billion below the FY 1985 enacted level.)

WRITTEN QUESTION FROM SENATOR CHILES TO SECRETARY SCHULTZ AND THE RESPONSE

Q. Mr. Secretary, in your opening statement you mention the Administration's new economic development initiative for the Andean countries. This apparently includes $10 million in economic support funds for Bolivia.

Now, I am sympathetic to the problems of Bolivia, a country whose economy has been politely described as "imploding". Bolivia has an inflation rate recently estimated at 115,000 percent; the lowest per capita income in Latin America; a $3.7 billion foreign debt, and a debt/service ratio over 100%; a fiscal deficit in excess of 28% of GDP; and a money supply growing so fast that Bolivian banknotes produced in Europe are the country's third largest import.

The present government has all but officially repudiated its external debts and is still pursuing the kind of economic program which, for example, subsidizes the cost of gasoline to the extent where it is cheaper to buy a liter of gas than a single cigarette. An IMF program or bailout from the private banks is clearly out of the question.

> In this context, Mr. Secretary, can you explain to me what we could possibly expect to come out of giving a $10 million cash transfer to Bolivia; a country which is well over $1 billion in arrears on its foreign debt?

A. I appreciate your well-informed concern regarding developments in Bolivia. The magnitude of each of the statistics you quote is somewhat smaller according to information available to us, but firm figures are difficult to obtain. We are dismayed, as you are, by the enormity of the crisis there.

Let me first say that in no country is U.S. assistance the entire solution to economic and financial difficulties and, as you point out, certainly not in Bolivia. The country faces daunting challenges to its economic and political systems, and it is appropriate for us to consider ways in which we can assist.

We expect to see presidential elections this year in Bolivia, and we would like to see the new government enter office under the best possible circumstances in which to address its economic problems, and we would like to be able to work with that government in pursuing economic policies which are likely to set the stage for recovery and resumed growth. The current government has very recently undertaken measures which should help to arrest, if not reverse, the decline of the formal economy. President Siles has authorized a series of decrees, including a devaluation of the official peso to dollar exchange rate, and an upward readjustment of certain tariffs, including the price of gasoline.

The significance of these measures in the short term depends on the follow-up steps taken. I think we can all salute those in Bolivia who are trying to tackle problems some may be tempted to regard as insurmountable.

One last point, if I may. Bolivia has been paying obligations due to bilateral and multilateral creditors. It suspended payments after last March on interest and principal due international commercial banks. Although there is no short term solution to Bolivia's debt service problem, we would hope that the incoming government later this year will undertake the kinds of policies which will give Bolivia's creditors renewed confidence that it will be able to manage its economy in a manner which warrants continued cooperation in seeking a longer term solution.

WRITTEN QUESTIONS FROM SENATOR DANFORTH TO SECRETARY SCHULTZ AND THE RESPONSES

Q: If Congress were to pass a joint resolution calling for the U.S. contribution to IDA to be increased by $250 million a year over three years, would the Administration support this increase?

A: This Administration set the U.S. contribution to the seventh replenishment of the International Development Association (IDA VII) at $750 million a year only after undertaking a comprehensive review to determine what would be an appropriate, sustainable level for our contribution, and only after we fully reviewed this position with the Congress. Our decision was based on a number of considerations, among the chief of which were: what level was likely to enjoy sustained Congressional support over the length of the replenishment period, and what level would allow an adequate lending program to be maintained by the institution.

With regard to the former question, the Administration was especially aware of the failure from the beginning to win the kind of Congressional support necessary to meet the previous Administration's IDA VI pledge on schedule. Based on our consultations with the Congress, we were convinced that a level of $750 million a year was most likely to be met on time; we are still convinced that this is the case. With regard to the question of an adequate IDA lending level, we believe that with an increased concentration of resources on Africa the level of lending supported by our current pledge will be sufficient to meet the needs of borrowing members.

There is now further reason for the Administration to request that appropriations be limited to our submitted levels. That is, of course, the urgent need to reduce our budget deficit. Reducing our deficit will assure that the U.S. economic recovery proceeds vigorously and continues to lead a world-wide recovery based on increased trade.

Is the Administration prepared to accept a 60/40 burden-sharing formula for IFAD's second replenishment?

The U.S. position in negotiations for a second replenishment of the International Fund for Agricultural Development calls for, among other conditions, the application of the traditional 58/42 burden-sharing ratio. U.S. negotiators have stated this position clearly since October 1984.
We have not received a firm proposal from the OPEC negotiators on their financial commitment to the second replenishment, nor have they as yet formally accepted the continued application of the burden-sharing concept. The Administration consequently has no reason to consider changing its position.

If negotiations on IFAD's second replenishment are successfully completed during the upcoming round of talks, will the Administration come forward with a supplemental appropriation for IFAD during this fiscal year?

The Administration does not intend to ask for any supplemental appropriations this fiscal year beyond those which the Secretary of State has already identified. In regard to Administration requests for contributions to a second replenishment, we must await the outcome of the negotiations.

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